GST 106: EVALUATION OPPORTUNITIES AND BUSINESS CONCEPTS

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GST 106

LECTURE

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6.1 INTRODUCTION

Business failure, according to Oshagbemi (1983), ~~"is the inability~~ of a particular business enterprises to continue to function." Okwoli, A.A in his lecture notes on financial management submitted that "any business that does not continue in its proper operational existence is said to have failed." From these two positions, could be deduced an implied objective of all business, that is, to exist and flourish perpetually.

There are two types of business failures: *financial failure and economic failure*. A firm is said to have financial failure if it suffers from either technical or legal insolvency, adduced Oshagbemi. It need be added that technical insolvency may not by itself, cause the firm to wind up. Yet it is a failure from the point of view of its inability to continue its proper operational existence. A business that suffers legal insolvency has failed in the absolute sense. It is due for liquidation. Economic failure relates to a situation where a firm's total revenue does not cover its total cost

The objective of this chapter is to analyze the symptoms and causes of business failure and the ways to avert business failure in the small business enterprises.

6.2 SYMPTOMS OF BUSINESS FAILURE

There are some symptoms of business failure; but unfortunately many small business operations, especially in Nigeria often lack the business acumen to detect these deficiencies. Again, it should be said that since businesses, big or small, exist in the same environment, and possess similar operational structures, which differ only in scale, factors that symptomise failure of small firms are those that herald failure of businesses in general. What makes the difference is the ability of big business firms to react and adapt to small imminent failure with relative ease.

Management authorities seem to agree on the symptoms of imminent business failure. For example, Oshagbemi (1983) and Siropolis, all identify four changes within the firm that are symptomatic of business failure. These are:

(i) Determination of working capital position
(ii) Declining sales
(iii) Declining profiles (or increasing losses)
(iv) Progressively higher debt ratio

In the words of Broom and his collaborators, Longenecker, authors of small business management, "these are the red flags that alert the businessman to danger. They tell him that action is required to avoid failure. The symptoms of business failure are as follows:

(1) **Determination of Working Capital Position**
Determination of a firm's working capital position is evidenced by a progressive decline in working capital adequacy. Working capital, which includes receivable and inventories, in addition to cash, will also typically become less liquid. The following

factors can contribute to declining adequacy and liquidity:

(i) Continuing operating losses;
(ii) Unusual, non-recurring losses, such as those due to theft, flood, tornado, and adverse court judgement.
(iii) Payment of excessive management bonuses and unearned dividend.
(iv) Frozen loan to officers, subsidiaries and affiliates;
(v) Over-investment in fixed assets from working capital funds;
(vi) Bond and long-term loan repayment in excess of a proper share of annual profiles.

When situation like this occurs, the management should then seek new equity capital, retain profit in business, enforce tighter credit policy, and reduce receivables and inventories. Excess fixed asset may also be sold, officer loans collected, and dividend passed until the situation is cleared up.

(2) Declining Sales
Sales decline represents a serious situation for any business. This is because operating expenses particularly fixed overhead expenses do not decline in proportion to sales. Hence, sales decline results in reduced profit or actual losses if continued for too long. Some of the recommended steps to be taken in face of declining sales include:

(i) Market research to measure sales potentials by sales area or customer groups
(ii) Selective selling to profitable customers;
(iii) Increased properly planned advertising expenditure;
(iv) Improved sales promotion; and
(v) Development of new products and services.

(3) Declining Profit
Profits that go downward from month to month, or year to year are also symptomatic of business failure. The cause may be declining sales, increasing merchandise cost, higher labour cost, high taxes and many other factors. Two key ratios to watch in this area are: Net profit on net sales and net profit on tangible net worth; that is, on proprietorship investment. The operative expense ratio, which is the ratio of expenses to sale, should also be watched carefu1ly. These should be held at figures comparable to industry standard ratios.

(4) Higher Debt Ratios
Progressively higher debt ratios constitute still another symptom of possible business failure. If current liabilities get out of hand and bills or payrolls due for payment cannot be paid, the concerned situation might rapidly deteriorate into involuntary bankruptcy (liquidation). Nor should a company's fixed, long-term liabilities be allowed to become excessive. Key ratio for use in determining trends and comparisons with industry standards include the following:

i. Current liabilities to tangible net worth,

ii. Current liabilities to inventory;
iii. Fixed assets to long-term liabilities;
iv. Total liabilities to tangible net worth
v. Number of times bond interest, if any is earned.

In this connection, it is recommended that small business expansion should ordinarily come from retained profit. To increase its percentage of total industry sales, a firm should procure added equity capital. For the small business, ownership capital should constitute surety percentage of its total capital, or higher, for complete safety.

6.3 CAUSES OF BUSINESS FAILURE

Despite the pervasive distressed syndrome now characteristic of the Nigerian economy, more business outfits are still being established. Ezeaguba (1996) insists that "the increase is due to the increase in the population and not an indication of business success." He further suggests causes of business failure or high business mortality, as reported by Enang and Abeng below.

1. Poor Feasibility Report
A feasibility report is the company's terms of reference. It shows at a glance the economic justification of the business activities and resources necessary to actualize them. A poorly doctored feasibility report would certainly lead to business failure as the investor would not only be misled but also be given false hopes, expectation and wrong sense of security. By the time the "scales fall off his eyes," an irreparable damage might have been done.

2. Lack of Adequate Planning
Planning has to do with forecasting future circumstances and requirements, deciding objectives, setting long and short-term goals, determining measures and steps to be followed. Since every investment decision has risk component, adequate attention must be given to the planning process as to ensure an articulate identification, appraisal, implementation and monitoring of activities, aimed at minimizing the chances of failure and success respectively.

When planning is not properly handled, chances are that such a business would not stand the test of time. The mistake most entrepreneurs make is to engage the services of ubiquitous quacks, for cheap fees, to handle their planning function.

3. Incompetent Management
Not having competent, experienced and efficient management team is one of the most devastating set backs any business establishment could suffer, since the success or failure of any enterprise rests squarely on the management. This is in line with the age-long adage that: "the body cannot lay claim to good health when the head is sick."

4. **Inarticulate Programme of Action**

This is closely related to factors explained above. Work planning and the determination of the company's objectives become effective early when they are expressed in policy form. Looked upon this way, policy formulation is an essential ingredient in the successful administration of a business. A policy is a guide to action and provides a continuous framework for the conduct of individuals involved.

Sound and consistent policies are required if good results are to be expected and poor policies would lead to poor results and eventual collapse of the enterprises.

5. **Under-Capitalisation**

This has become one of the greatest causes of misery to Nigerian business owners. While a lot of people with very brilliant business ideas cannot get started due to lack of funds, those who take the bold step forward to commence their dream business with the little resources at their disposal, sooner or latter, discover that after a while, the business becomes distressed due largely to liquidity crises.

6. **Poor Market Analysis**

This has to do with the business owner's assessment of the nature and level of demand for the product or service offered by the enterprises. Inaccurate market projections would result in the misuse of scarce resources with the resultant negative consequences on the fortune of the business.

In the same token, an accurate market analysis would enable the organisation determine within an acceptable margin of error, the present and future market requirements. But when the market analysis is faulty, the organisation would not be in a better position to design its product/service in accordance with customers' preferences, at economically efficient quantities, packed suitably and making appropriate arrangements for effective promotion and distribution, otherwise the product would not be accepted in the market place. As this happens, the business would fail.

7. **Lack of Opportunities for Staff Growth**

The staff component of any organisation is a crucial factor for success. There is no denying the fact that any company wishing to succeed must inevitably carry its staff along its growth path. Personnel, unlike other resources, have feelings and aspirations; aspirations that they look into and hope that their companies would assist in realizing.

These include, among other things, career fulfillment and financial stability. Any company, that does not see to its staff's financial and career well-being, would be a training ground of staff for other companies. When a company continuously loses its best hands, it would in the same fashion crash out of existence.

8. **Filing Behind The Crowd**

This happens when a business is set up to do just what its competitors are doing, and in the same styles. This does not give the organisation its own identity in the market place. No client would make any conscious effort to trek to a metre away from the nearest competitor, as there would be nothing special to justify the effort.

There may be no new line of business to venture into, but business success calls for creative innovations to existing business ideas or product/service delivery system, otherwise innovative competitors would in no time knock off business.

9. **Neglecting Business Ethics**

The safest way to ensure that your business fails is to neglect the rudiments of acceptable business ethics. The demise of the Nigeria Banking sub-sector, where directors and top management staff have to convert depositors' fund into personal use and maintain different accounting books for different inspectorate bodies find explanation within the context of abusing the ethics of the profession. Once ethics are thrown to the dustbin, be assured that business would sooner or later fail.

10. **Neglecting its Social Responsibilities**

Business succeeds only when members of the community in which it finds itself efficiently patronize it. A business enterprise, therefore, does not exist in isolation from the society in which it has its being. A business outfit must recognize its immediate society, and where there is any special interest, the business must offer it to the wider community. Subsequently, products or services must be beneficial to the community, reduce as much as possible, any harmful effect of its activities in the operating environment, by avoiding the negligent discharge of pollutants, and of course, avoiding unnecessary waste of the earth resources.

Any company that neglects this would be at dagger drawn with the law and the community in which it operates and the ensuing conflict may degenerate into a situation where it would be difficult to achieve business objective, which inevitably would lead to business failure.

11. **Poor Communication**

Communication is the means whereby individuals in organization exchange information necessary for the smooth operations of the enterprise. It involves the exchange of ideas, facts and emotions by two or more persons within and outside the organization, through the use of words, letters and symbols.

Effective communication is a key element in the success of any structured organization as it provides the link between various departments. When there is no free flow of information, production or service delivery system would be dislocated, as a policy decision, and objectives cannot be communicated to those concerned, and the ensuing disenchantment could spell doom for the organization.

12. **Wrong Location**

What has location got to do with the success or failure of a venture? You may ask but remember that location determines a lot of things. If your business involve

manufacturing, that requires the processing of bulky raw materials, it is only economical to locate your factory near the source of raw materials; otherwise a chunk of your working capital would be spent on transportation.

Also what is the rational of setting a video-viewing centre in a community of blinds? Certainly, it is a sheer waste of time and resources. A number of businesses have failed because they were cited at wrong places.

13. I Have Arrived Syndrome

Many entrepreneurs run out of control as soon as they venture into business for themselves. As this happens, they talk and act bigger than they should. Subsequently, through their unguarded utterances assume more financial responsibilities than their pockets could sustain and ingloriously dig into their business capital, and before they realize it, a deadly blow had been dealt to their business funds.

14. No Reward for Hard Work

Many business owners in Nigeria are yet to see the need for rewarding staff, which put in more than they are being paid for. They would rather treat all their staff in the same way, unmindful of the grave consequences this have on staff morale. When there is no "thank you for a job well done," the few hardworking members in your team may not find justification to continue working hard, and this may affect the fortune of the business and subsequently lead to failure.

15. Extraneous Factors

These are factors purely outside the control of the business owner or that of his managers. It could be natural misfortune, economic or political crises as we do experience in the world today.

16. Protracted Ill-Health or Death

Many entrepreneurs are the "all and all" of their different businesses. Some hold their business secrets very tight and confidential that in an event of long ill-health or death, there will be nobody who will continue the business, because the entrepreneur has died with the secrets of the business. The business will also die with the owner.

17. Crises of Succession

Usually, many business owners always fail to plan especially for the future. Some will have two wives or more with many children. These children all have a stake in their fathers' property and when the entrepreneur fails to make adequate succession plans for the business, it is most likely that the children will misunderstand themselves which may lead to struggles and court actions that may eventually cripple the business.

18. Bad Spending Habit

Many entrepreneurs fail to understand the difference between self and business; hence could not separate self from business. This leads to the spending of the company's money, as he deems fit because he believes he is the owner. In most cases, this helps to kill the business.

19. Lack of Connection

This particular issue has a very strong root in Nigeria, which we are using as a case study. Good connections can help business to grow, and lack of it can help in strangulating business especially in Nigeria where the "Nigerian factor" of who do you know, or where do you come from, play a big role in what you get or loose.

20. Unfavourable Government Policies

The survival of most businesses, especially small businesses, depends mainly on good government policies; but if there is any bad change in the policies, it will affect some businesses. Many will die if such bad changes are not addressed. For example, when government banned the importation of wheat in Nigeria during the structural adjustment programme (S A P) era, many breweries went out of production and equally their dependent allied industries died in the process too.

6.4 HOW TO AVERT BUSINESS FAILURE

Business failure aversion is not "snuff dance affair," but a very serious, articulate and energy sapping endeavour. The entrepreneur must, as a matter of urgency and rule, adhere strictly to the rule of the game in managing successful businesses. The management of the 4 Ms, namely: men, money, materials, and machines should be his management pivot.

Furthermore, to avert business failure, the entrepreneur requires the following, as noted by Baumback (1992):

i. Careful study of market.
ii. Wise planning of activities.
iii. Vigilant control of investment, merchandise, personnel, equipment and building to ensure maximum use for production.
iv. Adequate expense record.
v. Thoughtful selection of goods.
vi. Strategic location with particular reference to the market, but also, bearing in mind resources and transportation of goods.
vii. Sound policies, flexible and adequate, to obvious business expediencies.
viii. Strong working relationship with suppliers. Judiciously controlled credit.
ix. Customer selection and market concentration. Skillfully selected personnel.
x. A well-planned sales promotion programmes.

Averting business failure has no simple and direct formular. In addition to the above methods the entrepreneur should note also the following:

- Good motivating programmes.

- Well forward training programmes.
- Good outlets.
- Articulate, environmental scanning.
- Adequate good spending habit.
- Should be contemporary as to the changing world issues.
- Must be prepared to take risk.
- Good experience and hard work.
- Ability to cage fraud or nip it in the bud.

Any good entrepreneur who religiously applies or practises these suggested methods would be in a good position to avert failure and maintain a continued success in business.

6.5 SUMMARY

The problem of entrepreneurs is that many of them always fail to plan, hence what normally awaits them is failure. Above all, the general economic conditions help in determining to some extent the success of any business. Many businesses fail in Nigeria because of the pervasive harsh economic condition, which has created problems for entrepreneurs.

The government should not be exonerated from many business failures in Nigeria, as most of the policies of the government help in killing some businesses. So it is suggested that the government should play its fatherly roles by ensuring the success of both small and big businesses.

From the above discussion so far, it would seem that prompt detection of these symptoms centres on efficient financial management of the firm. Although, the ability to remedy such deficiencies may go beyond the functions of a financial manager, this situation must be promptly detected for any meaningful action to be taken by management.

Review Questions

(1) As a consultant, your client has approached and told you of many symptomatic signs of failure being observed recently in his business. Advise him on the tested ways to get out of the problem.

(2) What are the major causes of business failure in Nigeria?

(3) List out various ways to avert business failure

References

Oshagbemi, A.T. (1983). *Small Business in Nigeria*, Lagos: Longman.

Baumback, C. M. (1992). Basic Small Business Management; as in Okpara, F. O. (2000) *Entrepreneurship: Text and Cases*, Enugu: Precision Printers and Publishers

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PART TWO:

SMALL BUSINESS

Chapter Seven

THE SMALL BUSINESS START-UP

- Introduction
- Factors that Prevent Business Start-up
- Planning to Start up a Business
- The Economic Role of Small Business
- Deciding on a Development Approach
  - Start a New Venture
  - Buying an Existing Venture
  - Operating a Franchise
- Summary
- Review Questions
- References

BUSINESS SLOGANS

"Man is Not on the Earth
Solely for His Own happiness,
He is There to Realize Great Things for Humanity"

Vincent Van Gogh

Always Have Capable Assistants
Who Will Push You Up and Follow up.

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7.1 INTRODUCTION

There are different constraints that face start-up business such as the availability of finance, premises and motivation. It is always important that an entrepreneur first considers the availability of investment opportunity, which, among other things, includes the market, intended to tap. For an adequate start up for any business, proper preparation, which involves all categories of planning, must be in place.

Under the articulated plans, the entrepreneur should carefully state his goals and objectives for the business in question. It is now based on these goals and objectives that a start-up should take place. The factors that prevent business start-up, planning to start a business, the economic role of a small business, and what approaches to take while deciding on development approach, are all treated here comprehensively.

7.2 FACTORS THAT PREVENT BUSINESS START-UP

From our findings, the problems that prevent business start-up as was discovered are listed below:

- Insufficient start -up finance
- Anticipated cash flow problems
- Change in home circumstances
- Cost of business premises
- Unacceptable risk
- In appropriate location of business premises
- Competing demand from family/domestic sources
- Lack of knowledge of accounting/financial techniques
- Anticipated problems of outlets
- Inappropriate sizes of outlets
- Unstable, political, social and economic-environment
- Very high and uncontrollable lending rates

Similarly, it was equally discovered from the findings that there were some personal problems that prevent business start-up, such as:

- Personal doubt of success
- Financial commitment
- Family commitment
- Fear of success
- Lack of self-confidence
- Content with current job
- Inadequate encouragement from spouse/partner
- Not having mastery of the task or jobs they would encounter

Many businesses are held to the ground because of these general and personal perceived and real reasons above. One should be able to get off them in order to start-up.

7.3 PLANNING TO START A BUSINESS

In business, an entrepreneur that neglects careful preparation at the beginning is doomed from the start, as he may not be able to overcome problems and exploit opportunities as these come by. The desire to work for yourself or start a business of your own is made difficult by lack of answers to a number of basic questions like:

- Can anyone start a business?
- Are you a self-starter?
- How do you get your business registered?
- How do you feel about other people?
- Do you need a license?
- Can you lead others?
- Can you take responsibility?
- Do you need the services of professionals?
- How good an organizer are you?
- How good a worker are you?
- Can you make decisions?
- Can people trust what you say?
- Can you stick with it?
- How good is your health?
- What sort of book-keeping system to adopt?

Directions: A good answer should be given to these questions and even more to be asked: The result of the answers must be above average for a successful business operation. If not, you are likely to have difficulty and should consider getting a partner to compensate for your weaknesses. If most of your checks were below average, not even a good partner will enable you to overcome the deficiencies indicated. The Third National Development plan, 1975-1980, says, "any firm/industry employing less than ten people and whose investment in machinery and equipment does not exceed ₦60,000 is a small scale industry.

Such industry must be local in its area of operations, relatively small in size within the industry, and largely dependent on internal sources of finance for its growth. There are some characteristic features of small industries, thus:

1. Low capital base
2. Output is generally low and targeted to catchment's markets
3. Low technological base
4. The polices for working conditions and objectives are changeable
5. Employees are low skilled

The term "small scale business" is relative. You can start your own with as little as ₦10,000 and nurse it to a big one. You can also start off with as much as ₦500,000 or ₦1,000,000 (One Million naira only). It all depends on the idea you want to invest in and your start-up capital.

You may not bother about high technology or such things as high skilled labour. For instance, setting up a small-scale beverage or soap making cottage industry does not require high level technology or large capital to start it.

However, these features point to some problems and challenges, which one will need to consider and study before starting any business. These include:

1. Feasibility Study/Survey

It is imperative that no matter how small the enterprises you are considering, you need a business plan or survey. You need to consider why some people are into some types of business. Consider too, location and the relevance of the business you are about to start to the community. Try to measure the capital outlay, likely problems and the pay back period of your investment, and conduct a detailed marketing research with the assistance of a marketing expert.

2. Set Goals

Make detailed list of what you ultimately want to achieve in business. Fix your entire being on your goal and be prepared to change often. If you want to succeed in business, you may not be another financier/ mega millionaire, but you will succeed in your endeavours. Create an aura of success, around you. People who are successful dress that way. Even if you are not big time business, act as though you have already achieved without being egotistic or overspending.

3. Self Assessment

It is necessary to assess yourself to ensure that you are fully prepared your personal skill, knowledge and experience. Does the business fall within the realm of your discipline? Do you need to learn new skills, techniques etc. you should also remember that you must work for long hours hence should be prepared.

4. Commitment and Dedication

You need to have a total commitment to succeed in business. Most people, who have recorded success in business today, put in long hours, often at the expense of every thing else. Regardless of the physical effort involved, you must be mentally engrossed in your business.

5. Your Characteristics and Temperament

You need to make a detailed study of your personality, motivation and value. Are they such that can hinder or boast your chances of success? You need to know how well you can cope with insults and embarrassments.

6. Be Unique

You do not have to be the same as everyone else and fit like a vegetable in a patch.

Be unique and different. Capitalize on your self-image and trust your intuition. Within the sector you want to participate, you can bring in new ideas or improve on existing ones. Chart a different course for yourself if possible. Many successful artists today are those who are unique in their own ways. It is only when you are unique in your endeavor that you may be noticed in this highly competitive world.

7. **Paying the Price**

Are you able to shoulder the price and sacrifices that are common to new businesses? Profit may not be realized at the teething stage. You need to know how well you can cope.

8. **Quick Decisions**

Make decisions quickly and with firmness. That is what makes you different and why you will rise to the top.

9. **Market Frictions**

The principle of free enterprise actually entails freedom to venture into any trade or business ideas provided one has the wherewithal. However, having the capital to start does not alone guarantee success in business. There is need to study the market peculiarities of the business you are venturing into. Find out whether you have to be a member of a union and other matters that may obstruct your success.

10. **Exploit Your Integrity**

Above all, use your integrity. If your business goal is not worthy of your inner desires, it will be hard to attain it. If your methods are not sincere, you will receive opposition. If your actions are not honest, you will suffer the consequences. Turn all negatives qualities into positive aspects; then watch yourself achieve (Olalusi, 1996).

7.4 THE ECONOMIC ROLE OF SMALL BUSINESS

Regardless of what makes the entrepreneurs tick, their jobs perform valuable services for the rest of us. Small businesses play a number of important roles in our economy, thus:

(i) **Job Provision**

Small businesses provide more jobs for the populace than large businesses. Stop and think for a minute about the people you know who have jobs. Where do they work? For big companies? For the government? Or for small businesses? If you are typical, at least half of your friends and relations work for small businesses, and the number that does so is likely to increase with the increase in entrepreneurship development in this country.

(ii) **Bringing Out New Products and Services**

Another important way small businesses contribute to economic growth is by

payment disequilibrium and grow export. Ogwuma (1995) said; in an advanced country, the manufacturing sector is a leading sector in many respects. It is the avenue for increasing productivity in relation to import substitution and export expansion, creating foreign exchange earning capacity. In the 2005 Talking Point statistics manufacturing accounts for more than 60% of the UK's exports. Thomas (2003) impressed that of the four wealth creating sectors, SMEs plays a unique role, unlike agriculture and mining, it is not directly limited by natural resources and unlike construction, most manufacturing products are easily transferable across national and international borders.

iv. Economic Integration: The world economy is becoming a global place, where players in the international market are not hindered from free trade. The policy of closed economy or protectionist approach is being dropped for trade liberalization (Abubakar and Ajoku, 2001). They observed that there is hardly a country today that does not seek to be more closely integrated into the global economy. The need to compete in the world market that has been a major concern to the industrial economies is today, the headache of developing economies. The only road to international competitiveness or integration is through SMEs manufacturing sector development.

v. Contribution to Research Development and Innovation: Research is the mechanism by which new knowledge is discovered. Development is the application of this knowledge into technology that solves practical problems. Innovation is the application and commercialization of developed technology into specific markets for acquisition for birth of new industries. Thomas (2003). Growth and development in all sectors of the economy of a naton are harbingers of research, development and innovation. The SMEs sector should play leading role in funding research and developing, those discoveries that lie idle in academic institutions

and research centre. In the ..., 75% of business research and development, and it is asserted that this is what raises productivity and drives innovation that raises the competitiveness of the U.K economy as a whole (Talking Points, 2005).

Major Problems of SMEs in Nigeria

(1) Low capacity utilization which Ekanem (1997) said has for a long time below 40%

(2) Loto (2005) discussed extensively the problems of the SMEs sector in Nigeria. He among others mentioned:

- Weak raw material base, resulting in excessive dependence on imported inputs
- Poor and obsolete technologies to support growth in manufacturing
- Poor infrastructural facilities, leading them to provide some facilities at prohibitive costs
- Massive importation and smuggling of finished goods resulting in weak demand for local manufacturing firms
- Poor and inconsistent industrial policies by government.

(3) Adeyemi (2004) identified, in addition to other problems facing the sector, political and social unrest, as in the Niger Delta and Boko Aram, leading to incessant closure of operations.

(4) The most important of all the problems is the one affecting finance. Sourcing, effective and efficient utilization and accountability of financial resources is to a large extent the core problem of the SMEs sector. Ogunriola (1991), Anyanwu and Oluremi (1991) and Lawal and Ojo (2004) agreed on the fact that sourcing finance is a major problem of the SMEs. Anyanwu and Oluremi (1991) adduced the two reasons for this:

(i) Most of the SMEs firms are small in size or scale and do not have access to the capital market.

(ii) It is tedious accessing bank loan and must often the interest rate is at cut-throats level.

The second phase of the managerial problem in the

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...s sector is that of poor management and accounting skills, which is a sine-squa-non to success in any entrepreneurial development. The very little finance they are able to get from ploughed-back profit, cooperative and bank loans and funding from government assisted schemes are not well managed. Adetayo (1999) observed that management skills also influence the implementation of accounting system, sourcing and allocation of funds or the so-called cash administration. In the country, it has been a phenomenon in the micro sector that business transaction is never divorced from household expenditures.

To buttressed the assertion of Adetayo (1991) in a study conducted by Ojo (1983) management in the small and medium scale industry he discovered that good records of transactions of the organization are virtually lacking, the firm cannot afford the services of a full-time accountant, receipts and payments are made from the personal accounts of the managing director, the account clerk, though hardworking, intelligent and possesses some formal education, has no training in book-keeping.

Institutional and Policy Supports for SMEs in Nigeria

The governments of Nigeria have been putting in place institutional and policy supports foe SMEs in the country since early independence. A list of such supports is given below.

1. Small Scale Industries Credit Scheme (SSICS) 1971
2. Nigerian Bank for Commerce and Industries (NBCI) 1973
3. Nigerian Industrial Development Bank (NIDB) 1964
4. SME Apex Unit of Central Bank (1989)
5. National Economic Reconstruction Fund (NERFUND) 1989
6. The African Development Bank/ Export Stimulation Loan (ADB/ESL) 1989
7. Nigerian Export Import Bank (NEXIM)
8. National Directorate of Employment (NDE)
9. Industrial Development Co-ordinating Centre (IDDC)
10. Community Banks

11. People's Bank
12. Family Economic Advancement Programme (FEAP)
13. State Ministry of Industry SME Schemes
14. Small and Medium Industries Equity Investment Scheme (SMIEIS)
15. Bank of Industry (BOI)
16. Small and Medium Enterprises Developing Agency of Nigeria (SMEDAN)
17. Credit Guarantee Scheme for SMEs. (Basil, 2005)

Managerial related problem

Prospects of SMEs

FEATURES OF SMEs

1. They are either sole proprietorships or partnerships. Even when they register as Limited is its mere paper status.
2. SMEs have labour intensive production processes.
3. Centralized management
4. Limited access to long-term capital; even their access to short-term financing is limited and sometime attained at a strict rate of interest and other conditionalities.
5. Pursuit of individualistic goals at the expense of the overall interest of the SMEs.
6. High mortality rate among SMEs is high as a result of mistrust that often develops among the owners.
7. Regulatory environment - policy instability and reversals, inadequate infrastructure often contribute to their high mortality rate.
8. Over-dependence on imported raw materials and spare parts.
9. SMEs in Nigeria suffer from very poor inter and intra-sectoral linkages, and as a result lose benefits synonymous with economies of large-scale production.

CHAPTER TWO

GRADUATE UNEMPLOYMENT AND UNEMPLOYABILITY ISSUES: INTERVENTION THROUGH ENTREPRENEURIAL SKILL DEVELOPMENT PROCESS

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Introduction

The rate of employment in Nigeria has rose from 21.1percent in 2010 to 23.9percent in 2011. According to Okechuckwu (2013), the labour force swelled by 2.1million to 67,256,000 people with just 51,224,115 person employed leaving about 16,074 205 Nigerians without work. Unemployment rate on Nigeria was put at about 25%; while about 1.8million new job seekers enter the market every year (National Bureau of Statistics 2013). This appear to be worrisome because most of the job seekers are young school graduates (Adesina, 2014). Some of the major reasons for unemployment in Nigeria is that most of the graduates are not employable, because, employers do not find the graduates with the right set of skills for employment or rather, the graduates do not have the skills required by industries and companies who could engage them. A good number of the graduates also lack worthwhile entrepreneurial skills to own and sustain a business of their own.

Unemployment and Unemployable Issues

Some years ago, many opportunities for various employments used to abound for graduates from Nigerian Schools, Colleges and Universities. Undergraduates used to be interviewed for jobs at their final year in the university. Some used to have more than two or three jobs from which to choose in those good old days, movement from school to industry was often automatic. Today, the stories are no more the same. There is marked disconnection between the world of work and the school output. For example, 54% of Nigerian youths were unemployed in 2012 (Nigerian Bureau of Statistics, 2013). There are increasingly fewer job

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opportunities for Nigerian graduates in industries and the world of work. The high unemployment rate among school leavers and university graduates have been attributed to lack of appropriate entrepreneurial or creativity skills required to perform effectively on the job or to establish ones own enterprise as an entrepreneur. In most developed countries of the world, acquisition of relevant entrepreneurial skill is a means of increasing the productive power of undergraduates and graduates.

It has been observed that more than 70% of even the gainfully employed Nigerians are engaged in different work requiring manual skills and technical knowledge. Unfortunately, most of the graduate leaving the schools are now unskilled and probably this is one of the major reasons why many graduates are unemployed or rather unemployable. According to Okorie and Ezeji (1988) even when some of the graduates are offered a job, they are often found to be low in performance and proficiency; hence they often operate at a loss.

According to Igbo (1998), education for a worthwhile employment and successful business establishment can only be made realistic when the required efforts are made to emphasise the need for a cross sectional relationship between technical knowledge, skills acquired, right attitude, creativity, and proper work habit. According to Okorie and Ezeji (1988) only the successfully employable and self-employed graduates are successfully educated in the modern high tech-world. In which case, a student can be said to possess employability skill if he or she could possess the appropriate manipulative and saleable skills required for proficiency in a particular job or enterprise.

In this chapter the writer highlighted how entrepreneurial skills can be developed or acquired and how it can serve as intervention to unemployment and unemployables issue among undergraduates, graduates, youths and adult job seekers..

Skill Defined

The concept 'skill' has been defined severally by technicians, economists and sociologists. In this context, skill can be defined as the ability to perform, operate, or act well and expertly. According to Osinem (2008), skill can be defined as a well established habit of doing something expertly or ability to do something well; or perform an act expertly. Skill, according to Hull, (1992) and Aderogba, (2011) can be expressed as manual dexterity, acquired through the repetitive performance of an operation or a set of tasks. Skill can also be explained as the quality of performance which does not depend solely upon a persons fundamental, innate capacities but developed through training, practice and experience (Adeyemo, 2009). In which case, skill can be regarded as the possession of the expertise needed to perform a particular job or series of jobs. It consists of habits that ensure observation, imitation and adaptation. According to Aderogba, for any individual to be skilled, self employed or self reliant, he or she should have acquired the right habits, attitudes and entrepreneurial skills with which he or she could successfully explore his or her environment, as well as a means of surviving in the face of unemployment. Adesina (2014) described employability skill as the set of skills required not only to gain employment but to progress within an enterprise in order to exhibit ones potential and contribute successfully to the growth and development of an enterprise or organization. Employability skill development it is relevant at both entry level and for established employees or beginning entrepreneurs.

Entrepreneurial Skills

Entrepreneurial skills are the skills needed by an individual in order to become a successful entrepreneur. (www.mindtools.com, 2015). They are the skills required by an entrepreneur wanting to start a business or someone on a job where they are expected to develop a business or "make things go forward". According to Uko (2009), entrepreneurial skills are the abilities required to manipulate input resources effectively within a particular enterprise in order to achieve a production goal. Meredith, Nelson and Neck (1996); Lawal, Famiwole and Mohammed (2014) defined entrepreneurial skill as abilities possessed by an individual to initiate, run and successfully manage one's own enterprise successfully. Entrepreneurial skill allows an entrepreneur to secure more probing, analytical, possible economic and political astute.

An entrepreneur, in this case, is an individual who initiates, owns and run a business successfully. He or she entrepreneur is a person who has the ability and capability to initiate and run an enterprise, by organizing human, financial and material resources for the production of goods and

services to maximise profit. He or she is a self-starter, creative, high achiever, ambitious, innovative and risk taker in a business. Becoming an entrepreneur is a career decision. Awe, (2002) noted that the role an entrepreneur perfoms is called entrepreneurial function, while the process can be termed entrepreneurship.

Entrepreneurial skills and characteristics

Generally, entrepreneurs have in common certain characteristics and skills. However, there is usually a wide range of individuality among the characteristics and skills required by each entrepreneur. Some graduates or entrepreneurs do well in their own business because they love being self employed, hence they develop their skills; others are fully of natural talents, and requires much less special training. Still, entrepreneurs or individual simply finds their own successful approach to being self employed, even though they may not have been trained.

Some receive formal training and skill development, while others have a natural flair for being self employed. Others break every rule or devise very unusual approaches but still succeed. Every aspiring entrepreneur should first of all examine themselves and determine their own approach or style. It has been observed that there is no strict recipe for becoming a successful entrepreneur. The following characteristics and skills are mainly associated with entrepreneurial success.

Entrepreneurial Skills and Traits Needed to become a Successful Entrepreneur

Important traits and skills associated with successful entrepreneurs includes the following

a. Practical skills
b. Critical and creative skills
c. Personal characteristics
d. Interpersonal skills

All beginning entrepreneurs need to examine their practical skills, critical and creative skills. Personal characteristics and interpersonal skills in order to determine how well or fast they can be effective and successful in their business.

A. Practical Skills and Knowledge

i. An entrepreneur needs practical skills and knowledge in the following areas to produce goods or services effectively and run a company.

1. **Goal Setting:** An entrepreneur should be able to set his or her goal regularly, create a plan to achieve them, and then carry out that plan with passion.
2. **Planning and Organizing:** An entrepreneur should examine his or her talents, skills and abilities necessary to achieve their goals. They must be able to coordinate people to achieve their objectives and make effective project management skills an important aspect of their strategy. They should also be able to develop a coherent, well thought-through business plan, including developing and learning from appropriate financial forecasts.
3. **Decision Making:** Entrepreneurs should be good in the right decision making process. They should be able to make decisions based on relevant information by weighing the potential consequences of options available to them and always be confident in the decisions they make.

ii. Entrepreneurs also need adequate knowledge in the following areas when starting or running a business.

1. **Business Knowledge:** Entrepreneurs should have a good general knowledge of the main functional areas of a business such as sales, marketing, finance, and operations, and be able to operate or manage others in these areas with a reasonable degree of competence.
2. **Entrepreneurial Knowledge:** Entrepreneur should try to understand how to raise capital and understand the sheer amount of experimentation and hard work that may be needed to find a business model that works for them.
3. **Opportunity-specific Knowledge:** Entrepreneurs should be able to study the market they are attempting to enter and understand what they need to bring their product or service to market.
4. **Venture-specific Knowledge:** This is where it's often useful to work for a short time in a similar business so as to learn from people on the job.

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B. Critical and Creative Thinking Skills

Many people think that entrepreneurs are born creative. However, creativity is a skill that an entrepreneur can develop if he/she could invest the required time and effort.

As an entrepreneur, one needs to come up with fresh ideas and make good decisions about opportunities and potential projects. Specifically, entrepreneurs need to develop the following tasks.

1. **Creative Thinking:** Entrepreneur must try to always see situations from a variety of perspective and come up with original ideas.
2. **Problem Solving:** Entrepreneurs should be good at coming up with sound solutions to the problems they maybe facing.
3. **Recognizing Opportunities:** Entrepreneur should always be ready to recognize opportunities when they present themselves. He or she should study business trends and create a plan to take advantage of the opportunities they identify.

C. Personal Characteristics

Entrepreneurs should be able to examine the following personal characteristics, values, and beliefs and determine if they have the mindset that's typical of successful entrepreneurs.

1. **Optimism:** Be an optimistic thinker. Optimism is truly an asset, and it will help get young entrepreneurs through the tough times that many entrepreneurs experience as they find a business model that works for them.
2. **Vision:** As a young entrepreneur one must be able to forcast where things can be improved. Entrepreneurs are expected to quickly grasp the "big picture, and be able to explain this to others. They also must be able to create a compelling vision of the future, and then inspire other people to engage with that vision.
3. **Initiative:** An entrepreneur must have strong initiative, and be instinctively able to start problem-solving or business improvement projects.
4. **Desire for Control:** An entrepreneur should enjoy being in charge and making decisions all the time; and be motivated to lead others.
5. **Drive and Persistence:** An entrepreneur should be self-motivated and energetic and be prepared to work hard, for a very long time, to realize one's goal, mission and vision.

6. **Risk Tolerance:** An entrepreneur should be ready to take risks, and make decisions when facts are uncertain.
7. **Resilience:** An entrepreneur should be resilient, so that he/she can pick him/herself up when things don't go as planned and be ready to learn and grow from one's own mistakes and failures.

D. Interpersonal Skills

A beginner entrepreneur will have to work closely with people to be able to build great relationship with his or her team, customers, suppliers, investors and more. Some entrepreneurs are more gifted in this area than other. Are you gifted? Note, every entrepreneur can learn and improve their interpersonal skills. The following are the major type of interpersonal skills that are needed by entrepreneurs to succeed.

1. **Leadership and Motivation:** All entrepreneurs are expected to be able to lead and motivate others to follow them and deliver their vision. They should be ready to delegate work to others. Successful entrepreneurs need to depend on others to get beyond a very early stage in their business – because there is just too much to do all on one's own. Entrepreneurs should be able to inspire their employees to pursue and achieve their company's vision as a team.
2. **Communication Skills:** Be competent with all types of communication. Entrepreneurs need to be able to communicate well to sell their vision to investors, potential clients, team members, and to outside world.
3. **Listening:** Entrepreneurs must be a good listener to what others are telling them. Their ability to listen can make or break them as an entrepreneur.
4. **Personal Relations:** All entrepreneurs should be emotionally intelligent. The higher an entrepreneur's emotional intelligence, the easier it will be for him or her to work with others. The good news is that all entrepreneurs can improve their emotional intelligence.
5. **Negotiation:** Successful entrepreneurs should be a good negotiator. Not only do they need to negotiate keen prices, as an entrepreneur they also need to be able to resolve differences between people in a positive, mutually beneficial way.

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on respect, integrity, fairness, and truthfulness. They must be able to lead ethically. Entrepreneurs may find it hard to build a happy, committed team if they deal with people – staff, customers or suppliers in a shabby way.

7. **Right Mindset:** An entrepreneur should always be in the right mindset and avoid the rich quick mentality. They must have great integrity.

Though some entrepreneur can succeed without some of these skills, however, the more an entrepreneur is missing, the more likely he or she is likely to fail. However, an entrepreneur can hire some of the "talent" they need to succeed.
(http://www.mindtools.com/pages/articles/newCDV_76.htlm, 2015)

Some other Major Competencies needed by Young Graduates and Entrepreneurs

A wide range of competences are seen as entrepreneurial and useful to entrepreneurs, these include knowledge, skills and personal traits in the following areas.

1. Ability to manage time and people, both oneself and others, successfully.
2. Ability to sell ideas and persuade others effectively using appropriate channels and models.
3. Ability to work both as part of a team and independently
4. Ability to plan, coordinate and organize effectively
5. Being financially literate
6. Passion for business and being committed.
7. Confidence in ones ability to succeed.
8. Be a self-starter. Do not wait for others to tell you what to do.
9. Develop strong drive, persistence and ability to complete tasks to time.
10. Thrive on competition – that is being able to constantly try to improve one's performance regardless of what others may be doing.
11. Readiness to be an information seeker and willingness to learn always.

13. Being self-motivated and disciplined
14. Being able to adapt to "situations"
15. An innovative and creative thinker
16. Ability to multi-tasks
17. Ability to take responsibility and make quick decisions
18. The ability to work under pressure
19. Perseverance
20. Competitiveness
21. Willingness to take risks
22. Ability to network and make contacts globally
23. Mentoring with experienced specialists on the job

In addition to the more general competencies listed above, the following four specific or business related skills, will be of extreme use to willing entrepreneurs,

1. Being able to draw up a business plan for a new venture
2. Being able to market and sell a new product or idea with passion
3. Financial skills, such as book-keeping and calculating tax
4. Awareness of intellectual property and possibly patent law

(heacademy.ac.uk/resources/entrepreneurship/skills/aspx, 2015)

Mistakes to avoid by young entrepreneurs

The following are the most frequently phobia or mistakes, or uncertainties faced by beginning entrepreneurs when starting a business.

1. Fear of how to get initial money/finance or capital.
2. Going for a business because of peer influence.
3. Delimiting ones scope to the immediate "local" environment.
4. Choosing a business without considering the financial involvement.
5. Deciding to establish a business mainly because of the glamour only.
6. Inability to source for entrepreneurs information
7. Risk of uncertainties.

Every young entrepreneur should try to overcome these mistakes, and plan for breakthrough right from the onset by acquiring appropriate entrepreneurial skills.

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Skill Development Process for Breakthrough

It has been observed that most of the teaching taking place in Nigerian schools emphasizes mostly the cognitive domain of learning at the expense of psychoproductive domain which emphasizes skill development, learning by doing and experiential education. Obayan, (1984) noted that liberal education encourages students to learn the content of the curriculum through role learning from text books with the tendency to be able to describe necessary concepts, equipment and procedures off-head or recite the skills requirement without being able to put them into practice; hence unable to perform any of the tasks required for creativity in industries.

The consequence of this old method of rote learning is that learners are made to memorise theories and principles with little or no practicals, learning by doing or experience generated activities on how the theories could be applied to solve any problem. Hence most students graduate from Nigerian schools, colleges and universities without any appreciable marketable skill or worthwhile aptitude with which they can be employed or establish their own business as entrepreneurs.

Sanita and Christoph, (2005) described skill development as the learning process leading to entrepreneurial competency. It requires application in context, that is, work experience in a real life and real working environment. Skill development has to do with the required capability for employment, needed by the employed, self employed and unemployed individuals.

Skill development can help to build a virtuous circle in which the quality and relevance of education and training would fuel the creativity, innovation, enterprise development, economic diversification, technological change, investment and competitiveness that economics and entrepreneurs need to accelerate the creativity of more jobs or enterprise. For an individual to possess a 'skill' means the person can demonstrate the right habit of acting, thinking, doing or behaving in a specific way which has become so natural to the individual through repetition, or regular practice that may become automatic to perform. Hence, skill development can be expressed as the level of efficiency achieved or attained through the regular observation, imitation and repetitive performance of an operation.

Skill development can take place in this order, through:

	A		B	C.
a.	Observation	a.	Observing	Perception
b.	Imitation	b.	Immitating	Set
c.	Practice	c.	Manipulating	Guided response
d.	Adaptation	d.	Performing	
		e.	Perfection	

Okorie, (1996), it has been observed that learners would always acquire appropriate skills faster when procedures and instructions are complemented with performance. Hence, for appropriate skill development the learners should:

1. first observe the skill being performed,
2. he or she must imitate the tasks as demonstrated by the master teacher,
3. he/she should repeat the act or process, practice them and then adapt them to the situation in question.

Skill development process therefore requires more than verbal directives.

Skill development means developing oneself and ones skill sets to add value either to ones organization or ones career. Consequently, learning and developing one's skills requires identifying the skills needed for mobility and seeking out training or on the job opportunities to developing those skills. An entrepreneur could always speak with his/her mentors to identify the type of skills that will help him/her move forward in the chosen career, job area or enterprise. Once an entrepreneur identifies the skills that are needed to achieve the career goals, the next step is to identify how to develop the skills. The two main avenues for developing entrepreneurial skill are through education or training, and developmental experience.

Skill Development Rule:

Entrepreneurial skill development strides should follow the "70-20-10" rule: that is

- 70% of entrepreneur's skill development should come from **on-the-job activities and action learning.** This can include learning by doing managing a project, serving on a cross-functional team, taking on a new task, job shadowing and job rotation.

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- 20% of entrepreneur's skill development should come from **interactions with others.** This includes having a mentor, being a mentor, coaching, participating in communities of practice, serving as a leader in an organization and so on.
- 10% of entrepreneurs development should come from **training,** including classes, seminars, workshops and conferences, (Ochiagha, 1995)

Theories of Skill Development

The following theories can be adapted for skill development process and training by instructors, teachers, entrepreneurs or capacity building resource personnel.

1. Skill development process will be efficient in proportion as the environment in which the learner is trained is a replica of the environment in which he must subsequently work.
2. Skill development can be effective only where the training job are carried on in the same way, with the some operation, the same tools and machine as in the occupation itself.
3. Skill development process will be effective in proposition if the individual is trained directly and specifically in the thinking and the manipulative habits required in the occupational itself.
4. The skill development process will be effective in proportion as it enable each individual to capitalize his interests, aptitudes and intensive intelligence to the highest possible degree.
5. Effective skill development for any profession, calling, trade, occupation or job can only be given to the selected group of individual who need it, want it and are able to profit by it.
6. Skill development training will be effective in proportion as the specific training experience for forming right habits of doing are those of the finished skills necessary for gainful employment or to initiate and run one own's business as an entrepreneur.
7. Skill development training will be effective in proportion as the instructor has had successful experience in the application of skills and knowledge to the operations and processes he undertakes to teach.
8. For every occupation, there is a minimum of productive ability which an individual must possess in order to secure or retain employment in that occupation. If skill developm... not carried to that point with that individual, it is neither personally or socially effective.
9. Skill development training must recognized conditions as they are and must train individual to meet the demands of the market even though it may be true that more efficient ways of conducting the occupation may be known and that better working conditions are highly desirable.
10. The effective establishment of process habits in any learner will be secured in proportion as the training is given on actual jobs and not on exercises or psedo-jobs.
11. The only reliable source of content for specific training and skill development in an occupation is in the experience of masters of that occupation.
12. For every occupation there is a body of marketable skills and content which are peculiar to that occupation and which practically has no functioning value in any occupation.
13. Skill development process will render efficient social service in proportion as it meets the specific training needs of any group at the time they needs it and in such a way that they can most effectively profit by the instruction therein.
14. The skill development process will be socially efficient in proportion as in its methods of instruction and its relations with learners it takes into consideration the particular characteristics of any particular group which it serve.
15. Skill development training will be efficient in proportion as it elastic and fluid rather than rigid and standardized.
16. While every reasonable effort should be made to reduce per-capital cost, there is minimum below which effective skill development training cannot be given and if the course does not permit of this minimum of per-capital cost, skill development training should not be attempted. Adapted from: (Prosser and Quigley 1949, and Okoro, 1993).

Breakthrough – Job Areas

The following are examples of breakthrough Job Areas where skills development can take place.

1. Poultry production – Broilers, Eggs, point of lay, pullets production, Quail Bird production
2. Grass cutter production.
3. Livestock husbandry like piggery, , goatry, cattle rearing, rabbitry
4. Bee keeping
5. Table water production and treatment
6. Nursery establishment for seedlings
7. Bakery and confectionaries industry
8. Playing of musical instruments/Singing
9. Tree crop production such as oil palm, cocoa, teak production
10. Soap and cosmetics production
11. Wood works
12. Barbing, hair dressing, hair weaving
13. Mat weaving and bag production
14. Beads and jewelry crafting
15. Modelling
16. Tailoring or fashion designing
17. Events designing and decorations
18. Pasteries/restaurants management
19. Bags and leather works
20. Metal works
21. Printing and publishing
22. Block making
23. Building construction and supervision
24. Computer hardware, software and networking installation and design
25. Aluminum fabrication
26. Air conditioning and refrigeration maintenance
27. Operation and maintenance of power generating sets
28. Sign writing
29. Painting/creativity jobs
30. Automobile mechanics
31. Electrical Electronic repair
32. Pottery/ceramic works
33. Architectural sculpture and design e.g. production and selling of interlocks
34. Acting/Dramatist

35. Computer sales and services
36. Dry cleaning
37. Fruit Juice Production
38. Car hire services
39. School proprietorship
40. Maintenance of GSM
41. Adire making
42. Electrical installations
43. Cleaning up services
44. Landscaping jobs
45. Horticulture/vegetable production
46. Lawn establishment and maintenance
47. Catering services
48. Fish farming
49. Arable crop production, like maize, groundnut, cowpea, cassava, millet, soya bean.
50. Processing and storage of farm products

Tasks, Skills and Ideas for Developing Breakthrough Programmes among Entrepreneurs in Schools

The following breakthrough ideas and tasks should be undertaken to promote programme success among entrepreneurs.

1. All entrepreneurs should be enthusiastic about their programmes.
2. They should learn fast from people on the job

All successful entrepreneurs should:

3. Choose interested people from industries and/or a guidance counsellor to serve on their advisory committee.
4. Constantly improve on their interest, talent and aptitude to promote their business.
5. Provide interesting and "catchy" titles for all their programmes or activities.
6. Go out on filed trips, surveys, interviews, google for project improvement initiatives
7. Publicize their entrepreneurial activities through the media, newsletter, radio, bulletin, hand bills, TV show etc.
8. Team up with other departments in the school or in government circle when planning their projects.

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11.1 INTRODUCTION

This chapter aims to explain how a business plan can be used effectively as an on-going monitoring and strategic planning document which, although it may need revision, should be effective for several years as a strategic planning tool for the entrepreneur.

Designing and writing the business plan should be seen as the outcome of a careful research process and subsequent planning procedure. It should be regarded as part of that procedure but not as the end of that process. The business plan is part of the on-going process of strategic planning for the entrepreneur and small business, whether produced for a start-up business or for an existing business. It can have several purposes: it may be required to obtain grant funding from an agency, serve as a strategic planning document for the entrepreneur, as a plan to guide the business, serve as a basis for taking decisions and as a subsequent monitoring device.

Purposes

One problem when designing and writing a business plan, is that different funding bodies can have different requirements. Even among different bank managers, there were considerable different expectations in terms of what was expected and required from entrepreneurs when producing a business plan for a start-up business as already seen from the research. In addition, venture capitalists will require a much more detailed business plan and perhaps more market analyses than a bank manager will, for the obvious reason that the venture capitalists will not be able to take security to safeguard his/her investment.

Thus the advice to potential and existing entrepreneurs before writing the business plan is to seek to determine what format the potential funder prefers in terms not of content but of presentation. This will avoid unnecessary re-writing of the business plan or changes to the presentation. It is best to have a full business plan that you are satisfied with and will serve you as the entrepreneur when taking strategic decisions for the business. Remember that the business plan should be produced for yourself, not for the potential funders, it can be modified, shortened, summarized or extended for different potential funders (or users) and you should be prepared to make these changes.

However, Edward and Salvatore (1983) define a business plan as a written document describing the what, who, where, how, when and why of developing and operating a new (or existing) venture. It is particularly useful to the entrepreneur before it forces him to come to grips immediately with the basic policies of his business.

11.2 IMPORTANCE OF BUSINESS PLAN

There are a lot of benefits to be derived from a good business plan by entrepreneurs. Most small business and entrepreneurship experts strongly recommend the development of a business plan. A business plan according to

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John (1986), is a document written by the prospective owner or entrepreneur that details the nature of the business, the product or service, the customers, the competition, the production and marketing methods, the management, the financing, and other significant aspects of the proposed business venture. Carson (1985) suggests that a well-prepared business plan can take 200 to 400 hours or even more to complete, depending on the complexity of the business contemplated, the strength of the competition, the number of different parties involved, and the member of other factors that must be considered.

However, Jeffrey et al (1985) enumerate several important purposes a business plan serves. These are:

(i) It helps prospective owners and entrepreneurs carefully think through every aspect of their proposed endeavour. Since the plan requires writing down information about such aspects of the risk involved, financing requirements, and intended markets, prospective owners and entrepreneurs are forced to think concretely about such matter.

(ii) A business plan helps prospective owners and entrepreneurs obtain financing. For example most financing institutions require that a business plan accompany applications for the agency's small-business loan programme. Most private investors will not even consider financing a venture without seeing a well-thought out plan.

(iii) A business plan provides a basis for measuring plan progress. Some experts argue that planning is particularly important for new ventures because of their inherent instability milestones for periodic reviews, during which assumptions and accomplishments can be compared. Careful monitoring increases the likelihood of identifying significant deviations from the plan and making modifications before the frail new venture is forced out of business

(iv) Business plans often help prospective owners and entrepreneurs establish credibility with others. Those to establish credibility with include the potential employees, potential suppliers who may be more willing to extend credit and the major customers who may be inclined to place orders when convinced of the small business soundness to deliver the necessary products and services.

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11.3. POINTS TO NOTE WHILE WRITING THE BUSINESS PLAN

Some hints and guidelines are given below in terms of the actual writing and presentation of the final business plan:

1. At a relatively early stage, the construction of the cash flow statement should be undertaken, perhaps after the analysis of the market research. This has the advantages of deciding what information and forecasts need to be justified and explained. Also whether sufficient research has been done and finally whether there are any additional expenses that need to be calculated.

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2. Always start each section on a fresh page. This helps to improve presentation and enables the user to find sections quickly.
3. Avoid appendices where possible. This is to save the reader/user the difficulty in referring to data while reading the appropriate section in the business plan. Appendices may be used sparingly.
4. Do use illustrations but do not overdo this. Illustrations are used and can help the user assimilate data quickly.
5. Do include some notes with the accounts, whether you are providing a cash flow statement only, or a more detailed set of accounts that may include profit and loss and a forecasted balance sheet.
6. Do put contact names on the front or inside page of the business plan. Put copyright if you want to.
7. The business plan should not be too long. Perhaps 30 pages including appendices is a rough maximum (or 10,000 words as maximum). There is no ideal length; although there is little point in producing a very detailed plan if the only aim is to raise a small capital from bank.
8. Bind the business plan securely (not stapled) and provide a cover that will stand up to some wear and tear. It is recommended that loosely spiral or ring-bound type should be used instead of hard cover bound. This is because of the flexibility that will allow one to modify and produce different versions of the same business plan for different users and funders, which the hard cover will not provide.
9. Finally, the business plan should always "stack-up"; that is, the topics treated should always synchronize.

11.4. HOW TO DESIGN VARIOUS BUSINESS PLANS

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(A) The following sections are recommended when designing the content of the business plan. These sections are not prescriptive and can be modified to suit the purpose of individual entrepreneurs and business plans. Deakins (1996) suggests the following business plan design pattern:

(1) Executive Summary

Although the executive summary should be the first section, it is likely to be the last section to be written and it can be the most difficult because you have to summarize the main contents of the business plan.

In summarizing, always try to include: What the venture is all about; What market and potential businesses are Profit forecast and expected return on investment; and the amount of money you now seek; in what form, and for what purpose, etc

(2) **Introduction**

A short introduction should give some background to the business, the key people, and an introduction to the nature of the business and the industrial sector. This section can be used to give the main aims and objectives of the business plan. Is it to map out an expansion plan for the business? Or is it to provide a strategy for the launch of a new business?

The aims and objectives could be placed in separate section. There are difficulties in differentiating between what aims and objectives are. A general guide is that aims can be considered to be quite broad and less specific than objectives. Objectives should be written in terms of specific outcomes. For examples, an aim of a five years business plan would be to:

- Provide a strategy planning process to become a major competitor in the industry, whereas an objective of the same business plan might be to:
- Achieve a fourfold growth in sales within five years,
- In the introduction you can provide additional information like the nature of incorporation if a start-up, whether the company is registered or not.

(3) **Market Analysis and Research**

In this section you report the findings of market research that might have been undertaken along the lines suggested before. Illustrations of the main findings can be quite useful for presentation purposes and for potential readers of the plan. However, those readers will not want to wade through a large amount of information and data. If the questionnaire that has been used as the basis for the research has been well designed, then it should be possible to present the information and analysis in the form of summary tables with brief comments on the significance and importance of market analysis and summaries of the potential total market and market share.

The marketing plan effectively sets out how sales are to be achieved. It may include all aspects of the so-called "marketing mix."

- Pricing policy
- Promotion (advertising and other forms of promotion)
- Production: The outlets and marketing strategy should reflect the production capabilities of the business.
- Place: How are the goods going to be distributed and how are they to be sold? What outlets are being used? Are direct selling methods to be used or are agents being used, perhaps working on commission?

Access to retail outlets can be a problem for some businesses. You need to demonstrate that you have given some thought to this and you have secured retail outlets, if the product is new.

(4) **Production Strategy**

If your business is concerned with manufacturing and production, a separate

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section should be devoted to the planning of production. You will need to identify the additional resources and capabilities that will be required for new production levels. For a new start-up business that requires production facilities, then obviously the business plan will need to describe how these are to be obtained and how staff are to be recruited.

An important element of any manufacturing business is timing production to coordinate with sales orders and to match supply of materials with production, because resources and finance will be required before products are made, before sales are made and certainly well before income is received.

To aid the planning process, it is worth providing an action plan. The purpose is to map actions against time and the production process.

(5) **Swot Analysis**

SWOT analysis involves the identification of Strengths, Weaknesses, Opportunities, and Threats for the business. SWOT analysis should consist of a series of short power points so that the reader can see quickly the main strengths and weaknesses of the business and the opportunities. Let not the power points be too short that the meaning will be lost. There should be an honest and articulate balance in the strengths and weaknesses because a long list of strengths and a few weaknesses is likely to raise suspicions from potential funders rather than impress them. It is always better for the entrepreneur(s) to write the SWOT analysis, which must always 'fit' the business plan.

(6) **Competition**

The competition and a section dealing with competitive analysis will follow from the identification of threats in the SWOT analysis. The extent of knowledge on competitors will probably vary, as to the major competitors and what their relative strengths are. It is also useful to identify what strategies they have used to establish their market position. For example, have they used market nicheing strategies? Or perhaps, more aggressive market penetration strategies? Or have they established their position merely by reputation.

You should also give some thought to potential competition. As opportunities develop, it could be that you face competition either from additional entrepreneurs (new start-ups) or from the existing competition. If the business plan is to be a valuable document over a three or five year planning period, then some thought must be given to that competition.

It is always desirable to conduct a limited amount of sensitivity analysis that will demonstrate to potential fund providers, outcomes and the reaction of existing and potential competitors.

strategy for survival! devt & growth

(7) **Competitive Strategy**

This is the most important section of the business plan, since it should map out the strategy for the survival, development and growth of your business. A strategy

should be identified that will enable the business to meet the aims and objectives which will have been set out in the early part of sections of the business plan. The development of competitive strategy will be the natural outcome of the process of researching the market opportunity, the nature of the product or services, the SWOT analysis, and the competitive analysis.

Porter (1980) has provided a well-known taxonomy of generic market strategies, which are indicated below. It is likely that your strategy will fall into one of these three categories. Porter shows that competitive strategies are a response to the environment in which the business operates; in other words they are generic to the environment and the nature of competition faced by the business. Porter's three generic strategies are described below:

- *Cost leadership*

Under this strategy, the emphasis is on maintaining a competitive edge through a cost advantage over competitors. The advantage of cost leadership for entrepreneurs will lie in the generation of additional income that may result from cost reduction and which may be re-invested to provide new production techniques or products.

- *Differentiation*

This strategy may follow from a need to diversify production or services. It should not be confused with the third (focus) strategy. It is a strategy that is more likely to apply to existing and well-established producers; perhaps, products have entered a maturity stage of their life cycle and there is a need to diversify production to maintain growth in the firm.

- *Focus*

The third strategy is the one that is most likely to be adopted by new firm entrepreneurs. It recognizes that many market opportunities result from specialization. There is no right or wrong strategy, but it must be appropriate for the business, the operator, the market, and the business development plan.

(8) Critical Success Factors

The identification of critical success factors is a useful section that should be included in the final business plan. It can serve as a useful summary and check of factors that have been identified in other sections of the business plan and are best placed towards the end of the business plan. You may like to think about the following factors:

(i) What factor does the success of the business hinge upon? Are they factors concerned with gaining order or are they concerned with securing quantity from supplier?

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(ii) How important are the key personnel to the success of the business? If a key member of staff leaves, how will this affect the performance of the business? How easily can they be replaced?

(iii) How important is the strategy of the business? Does the success of the business depend on obtaining appropriate skilled staff?

(iv) Does the success of the strategy adopted depend on how competitors react?

It is worth considering each section of the business plan and identifying just one or more key factors from each section that will be critical to the performance of your firm and to its success. Having identified such factors you can adopt strategies that can ensure success or lead to alternative arrangements. For example, if a supplier is identified as a critical factor, you may wish to investigate alternative arrangements of ensuring supply.

(9) Cash flow Statement 3 or 5yr Cash flow

The cash flow statement contains the projected income from sales and other sources and all the expenses concerned with the launch and operation of the business. The importance of the cash flow statement is that it shows the timing of income and expenses and should show all these figures for 12 monthly periods of up to three or perhaps five years, depending on the potential users of the business plan. It shows the liquidity of the business at any one time and reflects the need or otherwise to raise funds and credit. If the business plan is being prepared for a bank manager then it is unlikely that cash flow forecasts will be required beyond three years. If, on the other hand, it is being prepared for a venture capitalist then it is more likely that five-year cash flow forecasts will be required.

(10) Forecasted Profit and Loss Account

It is advisable but not essential to forecast an end of year profit and loss account. This involves adding up all the trading income, subtracting cost goods sold to get the trading profit and loss. General expenses for the year can be totaled, including depreciation subtracted from the trading profit to get the net profit.

(11) Forecasted Balance Sheet

Particularly, bank managers sometimes require a forecasted balance sheet, and this can be relatively easily calculated from the projections for the end of the year.

The balance sheet is a statement of assets and liabilities at any particular time period. As a planning tool it is not very useful, since it only provides a snapshot at any one time, but it seems to be required by bank managers (Fletcher, 1994). A number of financial ratios can be calculated and included in terms of profitability and liquidity. It is not necessary to go into detail on the calculation and usefulness of these, but standard business planning software will calculate these automatically.

(12) **Sensitivity Analysis**

The purpose of the sensitivity analysis is to provide a test of the susceptibility of the business to changes, or a test of the robustness of the business proposition to cope with unforeseen changes. We can assume that the most of the expense forecasts will be accurate. Despite careful research income, forecasts will still contain some uncertainty and the purpose of sensitivity analysis is to examine the consequences of changing some of the income forecasts on the net cash flow.

There is little point in developing any sensitivity analysis beyond the first year of operation, but it is worth formulating for optimistic and pessimistic scenarios.

The optimistic scenario might increase sales and other income by 10 per cent. Expenses will need to be adjusted to allow for this, for example through increased cost of materials, and perhaps through increased salary costs. The pessimistic scenario might decrease sales and other income by 10 percent with appropriate adjustment of expenses.

(B) **Alternative Method or Steps in Developing A Business Plan**

The steps below will give you another good idea of what is involved in putting together a business plan. The timetable for developing the plan will depend on the completing of the situation and your own schedule. Nicholas (1990), enumerate some steps in developing a business plan, thus:

(1) Make commitment to go into business for yourself.

(2) Analyze your strength and weakness, paying special attention to your expenses, business education, and desires. Then answer this question: Why should I be in business for myself?

(3) Choose the products or service that best fits your strengths and desires; then answer these questions.

- What need will my product or services fit?
- What is unique about my product or services? How do I know it is unique?
- What will my product or services do for my customers? What will it not do?
- What should it do later that it does not now do?

(4) Research the market for your product or services to find answers to such questions as these:

- Who are my customers?
- Where are they?
- What is their average income?
- How do they buy?
- At what price?
- In what quantities?

- When will they buy my product or services?
- Where will they use it?
- Why will they buy it?
- Who are the competitors?
- Where are they?
- How strong are they?
- What are the total market potentials?
- Are they growing?

(5) Forecast your share of market, if possible, then forecast your sales revenue over a 3 - year period, broken down as follows:

First year - monthly

Second year - quarterly

Third year - yearly.

Next answer this question: Why do I believe my sales revenue forecast is realistic?

(6) Choose a site for your business. Then answer this question:

- Why do I prefer this site to other possible sites?

(7) This step applies only to entrepreneurs who plan to go into manufacturing. Develop your production plan answering these questions:

- How big should my plant be?
- How shall my production process be laid out?
- What equipment will I need?
- In what size?
- How will I control the waste, quality, and inventory of my product?

(8) Develop your marketing plan, answering such questions as these:

- How am I going to create customers?
- At what price?
- By what kinds of advertising and sales promotion
- Through personal selling?
- How?

(9) Develop your Organizational plan, answering this question:

- What kind of skills and talents will I need to make my business grow?
- Draw up an organizational chart that spells out who does what, who has what authority, and who reports to whom.

(10) Develop your legal plan, for focusing on whether to form a sole proprietorship, a partnership, or a corporation, and then explain your choice.

(11) Develop your accounting plan, explaining the kinds of records and reports you need and how you will use them.

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(12) Develop your insurance plan, answering this question:
- What kind of insurance will I need to protect my ventures against possible loss from unforeseen events?

(13) Develop a computer plan, spelling out the ways that computer services may help you plan and control your business.

(14) Develop your financial plan by preparing these statements:
A 3 -year cash budget. Show how much cash you need before opening for business and how much cash you expect will flow in and out of your business, broken down as follows:
First year - monthly
Second year - quarterly
Third year - yearly
An income statement for the first year only, balance sheet for the beginning and end of the first year. A profit graph (break-even chart), showing when you will begin to make a profit. Then determine how you will finance your business and where you expect to raise money.

(15) Write a cover letter summarizing your business plan, stressing its purpose and promise.

(C) Third Example of Writing a Business Plan
Entrepreneurs have been lavished with various professional methods of writing business plan as detailed in A, B, and C. It should be noted here that the three methods are guides only. Some of the headings described may be unavailable or unnecessary. What the entrepreneur should do is to pick those areas that concern what is being written and develop them. Here is yet another detailed outline format of writing business plan.

1. Introductory Page
(a) Name of business
- Include address and Telephone number.

(b) Legal structure
(c) Date of start -up (or incorporation, for a limited company
(d) Brief details of yourself and partners (if any) or management team.
- Owner's name and telephone numbers

(e) Description of company
- Products or services offered by business and market area

(f) Securities offered to investors or, tenders
- Outline securities such as preferred shares, ordinary shares, debentures, etc.

(g) Business loans sought

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- Such as term loan, operating line of credit, mortgage
- Summary of proposed use of funds

(2) Summary
(a) Highlights of Business plan
- Preferably one-page maximum
- Include your project, competitive advantage and bottom line

(3) Table of Contents
- Section titles and page numbers should be given for easy referer

(4) Description of The Industry
(a) Industry outlook and growth potential
- Outline industry trends- past present and future- and new developments
- State your sources of information

(b) Markets and customers
- Estimate size of total market share and sales, new requirements ; market trends

(c) Competitive Companies
- Market shares, strengths and weaknesses, profitability trends

(d) National and economic trends
- Population shifts, consumer indicators

(5) Description of Business Venture
(a) Nature of Business
- Characteristics, method of operation, whether performed loca regionally, nationally or internationally.

(b) Target market
- Typical clients identified by groups present business patterns ; average earnings, wants, and needs.

(c) Competitive advantage of your business concept
- Your market niche, uniqueness, estimated market share

(d) Business location and size
- Location relative to market, size of premises, home or office use

(e) Staff and equipment needed
- Overall requirement capacity, home office use, part of full-ti staff or as required.

(f) Brief History
- Principals involved in the business, or proposed business, development work done, CV's of key associates if applicable.

(6) **Business Goals**
(a) One year
- Specific goals, such as gross sales, profit margin, share of market, opening new office, introducing new service etc.

(b) Over the longer term
- Return on investment, business net worth, sales of business.

(7) **Marketing Plan**
(a) Sales Strategy
- Commission sales staff, agents employees
- Sales objectives, sales tools, sales support
- Target clients

(b) Sales approval
- Style of operation and techniques

(c) Pricing
- Costing, mark -ups, margins, break-even

(d) Promotion
- Media advertising, promotions, publicity appropriate to each target market
- Techniques of developing exposure, credibility and contacts

(e) Service Policies that your business will adopt with regard to credit and collection, tendering, types of customers

(f) Guarantees
- Service; performance guarantees or other assurances will vary depending upon nature of your business and type of contract or clients.

(g) Tracking methods
- Methods for confirming whom your clients are and how they heard about you.

(8) **Sales Forecast**
(a) Assumptions
- One never has all the necessary information, so state all the assumptions made in developing the forecast

(b) Monthly forecast for coming year
- Sales volume, projected in cash terms.

(c) Annual forecast for following two to four years
- Sales volume, projected in cash terms. The sales forecast is the starting point for your projected income statement and cash flow forecast.

(9) **Production Plan (Manufacturing)**
(a) Brief description of production process

- Do not be too technical

(b) Physical plant requirement
- Building, utility requirements, expansion capability layout.

(c) Machinery and Equipment
- New or used, lease or purchase, capacity

(d) Raw materials;
- Readily available, quality, sources

(e) Stock requirements
- Seasonal levels, turnover rates, method of control

(f) Suppliers
- Volume discounts, multiple sources

(g) Personnel required
- full-time, part time skill level, availability, training required

(h) Cost of facilities, equipment and materials
- Estimates and quotations

(i) Capital estimates
- One time start-up or expansion, capital required.

(10) **Operations**
(a) Purchasing plans
- Volume discounts, multiple sources, quality, price

(b) Inventory System.
- Seasonal variation, turnover rate, method of control

(c) Space required
- Floor and office space, improvements required, expansion capability

(d) Staff and equipment required
- Personnel by skill level
- Fixtures, office equipment

(j) Operations Strategy

(11) **Corporate Structure**
(a) Legal form
- Sole proprietorship, partnership, corporation or cooperative

(b) Share distribution
- List of principal shareholders

(c) Contractors and agreements
- List of contracts and agreements in force
- Management contract, shareholder or partnership agreement, service contract, lease

(d) Directors and Officers

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- Names and addresses, role in the company

(e) Background of Management team
- Brief CVs of active owners and key employees

(f) Supporting Professional Assistance
- Professionals on contract in specialized or deficient areas

(g) Organizational Chart
- Identify reporting relationships

(h) Duties and responsibilities of key personnel
- Brief Job Descriptions-who is responsible for what

(12) Research and Development Programme

(a) Product or service improvements, process improvements, costs and risks.

(13) Risk Assessment

(a) Competitors' reaction
Will competitors try to squeeze you out? What form do you anticipate any reaction will take?

(b) List of critical external factors that might occur:
Identify effects of strikes, recession, new technology, weather, new competition, supplier problems, shifts in consumer demand, cost of delays and overruns, unfavourable industry trends.

(c) List of critical internal factors that might occur:
Income projections not realized client dispute or litigation, credit control difficulties, demand for services increases very quickly, key employee leaves or partner becomes sick or dies.

(d) Dealing with risk
- Contingency plan to handle the most significant risk

(14) Overall Schedule

(a) Interrelationship and training of all major events important to starting and developing your business

(15) Action Plan

(a) Steps to accomplish this year's goal
- Flow chart by month or by quarter of specific action to be taken and by whom.

(b) Checkpoints for measuring results
- Identify significant dates; sales levels as decision points.

(16) Financial Forecast

If a business has been in operation for a period of time, the previous years' balance sheets and income statements are required, preferably for the past two or three years.

(a) Opening balance sheet
- The balance sheet is a position statement, not a historical record. It shows what is owned and owed at a given date.
- There are three sections to a balance sheet: assets, liabilities, and owner's equity. You determine your firm's net worth by subtracting the liabilities from the assets.
- Your balance sheet will indicate how your investment has grown over a period of time. Investors and lenders typically examine balance sheets to determine if the company is within acceptable assets to liability limits.

(b) Income and expense forecast statement (profit and loss)
- The income and expense forecast could be described as the operating statement you would expect to see for your business at the end of the period for which the forecast is being prepared.
- For a new business, the forecast would show what revenue and expense you expect the business to have in its first year of operation.
- It is very useful, of course, to prepare a forecast for a period longer than one year. A detailed operating forecast for the following two years is suggested.
- Preparing an income and expense forecast for a new business is more difficult than preparing one for an existing business, simply because in a new business, there is no historical record to go by. For this reason the preparation of this forecast is even more essential doing it for an existing business, despite the time and effort required. This analysis exercise will answer the question of whether or not a profit will be made.
- The income statement is the most difficult because it is the most uncertain at the commencement of business. It is essential that a conservative estimate to be projected.
- The main concern is to account for expenses accurately and in as much detail a target or break-even figure toward which to work.
- Some headings may not be appropriate for your type of business; other headings should be added.

(c) Cash flow forecast
- A cash flow budget measures the flow of money in and out of the business. It is critical to you and your banker.
- Many businesses operate on a seasonal basis, as there are slow months and busy months. The cash flow budget projection will provide an indication of the times of a cash flow shortage to assist in properly planning and financing your operation. It will tell you

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in advance if you have enough cash to get by.

- A cash flow budget should be prepared a year in advance and contains monthly breakdowns.

(d) Cash flow assumptions

When reviewing the cash flow plan, certain assumptions should be made.

- Sales: Monthly sales (consulting service fees) that are expected to materialize.
- Receipts: Cash sales represent cash actually received; debts collected represent the collection of amounts due for goods sold on credit; rental income is rent that will be collected in advance at the beginning of each.
- Disbursements: Accounts payable to be paid in the month following month of purchase.
- Accounting and Legal: To be paid upon receipt of bill, expected to be paid after your fiscal year end. Financial statements have been completed.
- Advertisement: Anticipated to be the same amount each month and paid for in the month the expense is incurred.
- Car: Anticipated to be the same amount each month and paid for in the month the expense is incurred.
- Bank charges and interest: Anticipated to be the same amount each month and paid for in the month the expense is incurred.
- Equipment rental: To be paid for in monthly payments.
- Income tax: Amount for tax of the prior year and to be paid in the next season.
- Insurance annual premium: To be paid quarterly, semi-annually or annually in equal installments.
- Loan repayment: Amount is the same each month and paid in accordance with the monthly schedule furnished by the lending institution.
- Office supplies and expenses: To be paid in month following receipt of invoice and supplies to be purchased on a quarterly basis.
- Licenses: To be paid upon due date.
- Telephone: To be paid for quarterly in month after receipt of bill. Amount expected to be the same each quarter.
- Utilities: Expected to fluctuate with weather conditions and to be paid for quarterly.
- Wages and Benefits: Wages to increase after pay review. Amount otherwise considered to be the same each month and paid one month in arrears.

- Miscellaneous: Expected to be the same each month and paid for in the same month the expense is incurred

(e) Break-even Analysis:

- Your break-even analysis is a critical calculation for every business. Rather than calculating how much your firm would make if it attained an estimated sales volume, a more meaningful analysis determines at what sales volume your firm will break even. An estimated sales volume could be very unreliable as there are many factors, which could affect revenue.
- The calculation of a break-even point for every small business is one of the crucial pieces of information. Above the break-even sales volume, it is only a matter of how much money your business can generate; below the break-even level of sales, it is only a matter of how many days a business can operate before bankruptcy.
- A break-even analysis provides a very real and meaningful figure to work towards and might need updating every few months to reflect your business growth.
- The break-even point is where total costs are equal to total revenues.
- The calculation of total costs is determined by adding variable costs to the fixed costs.
- Total costs are all costs of operating the business over a specific period.
- Variable costs are those costs that vary directly with the number of services provided or marketing and promotion activities undertaken. These typically include car expenses, business travel expenses, supplies and brochures. Variable costs are not direct costs, which are passed on to the client in the billing.
- Fixed costs are costs that do not generally vary with the number of clients serviced, Also known as indirect costs, these costs typically include salaries, rent, secretarial service, insurance, telephone, accounting and legal supplies.

(17) Finance and Capitalisation

(a) Term loan applied for

- The amount, terms and when required

(b) Purpose of term loan

- Attach a detailed description of the aspects of the business to be financed.

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(c) Owner's equity
- The amount of your financial commitment to the business

(d) Summary of term loan requirements
- For a particular project or for the business as a whole

(18) Operating Loan

(a) Line of credit applied for
- A new credit or an increase, and security offered

(b) Maximum operating cash required
- Amount required, timing of need (refer to cash flow forecast)

(19) Present Financial (If Applicable)

(a) Term loans outstanding
- The balance owing, repayment terms, purpose, security and statues

(b) Current operating line of credit
- The amount and security held.

(20) References

(a) Name of present lending institution -Bank and type of accounts

(b) Solicitor's Name
- Address and telephone number

(c) Accountant (name and practice name)
- Address and telephone number

(21) Appendix

The nature of the contents of the appendices attached, if any, depends on the circumstances and requirements of the lender or investor or the desire to enhance the loan proposal. It is recommended that the appendices be prepared for your own benefit and reference to assist your business analysis, and to be available if the information is required. The following list is a guide only: Delete inapplicable ones.

(a) Personal net worth statement
- Includes personal property values, investments, cash, bank loans, credit accounts,
- Mortgages and other liabilities. This will substantiate the value of your personal guarantee if required for security.

(b) Letter of intent
- Potential orders or client commitments

(c) Description of personal and business insurance coverage
- Include insurance policies and amount of coverage

(d) Summary of Debtors
- Include ageing schedule of 30, 60 and 90 day periods.

(e) Summary of Creditors
- Include schedule of payments and total amounts owing

(f) Legal agreement
- Include a copy of contracts, leases and other documents

(g) Appraisals
- Fair market value of business property and equipment

(h) Financial Statements for associated companies
- Where appropriate, a lender may require this information:

(i) Reference

(j) Sales forecast and market surveys

(k) List of investors

(l) Credit status information

(m) News articles about you and your business.

11.5 FURTHER HINTS ON WRITING BUSINESS PLANS

As the Business plan is reviewed in subsequent years, the advantages of forward planning should become apparent. The business plan should serve to guide planning throughout the life of the business. The entrepreneurs should take note of the further hints below:

1. Be confident in the presentation of the Business plan. Careful research should increase confidence. Potential funders will need to be impressed by your own confidence and knowledge behind the forecasts that are in the business plan. No matter how well the business plan is prepared, potential backers are still influenced by presentation.

2. Prepare for questions on the business plan. Is there anything missed out? If profit and loss is not presented, some rough calculations will give a potential backer an introduction and may prepare for questions on this.

3. Do take the business plan to different agencies and backers and get their opinion on how it "stacks up"

4. Do not give up, if you cannot obtain funding at the first attempt. For example, research has shown that different bank managers can have quite different interpretations of the same business plan, despite the advent of expert system and credit scoring (Deakins and Hussain, 1991)

5. Be prepared to accept a long process vetting, if you are seeking funding from a venture capitalist. The due diligence procedure of a venture capitalist can take six months or more before a decision is made on

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whether to back a preposition.

6. If you can afford it, get the comment of a qualified accountant to verify the contents of the business plan. Research has shown that bank managers are more (positively) influenced by business plans that have been authorized by accountants.

7. Try to find out what potential funders are looking for. Many agencies that might provide funding have very specific criteria, e.g. that you attend enterprise-training sessions (if a new entrepreneur). Whether you need these or not, you will have to attend to qualify for the funding.

11.6 WHAT TURNS INVESTORS ON

As investors skim through the hundreds of business plans that land on their desks, they are looking for four ideal characteristics:

(1) Evidence of Customer Acceptance
Investors like to know that a company's new products have already being used, even if only on a trial or demonstration basis.

(2) Appreciation of Investors Needs
Investors usually want to recoup their investment within three or seven years. So they want to see some evidence that entrepreneurs have thought about how to make this possible.

(3) Evidence of Focus
Investors want to feel that a company's funders know which one or two things the firm does first and concentrate their efforts on them. Investors know that company's trying to do too many things won't do any single thing well enough to allow for fast- trade growth.

(4) A Proprietary Position
Exclusive rights to a product or process usually comes in the form of patents: they also may be obtained by copyright or trademark protection. A company with such protection has an advantage over its competitors.

11.7 WHAT TURNS INVESTORS OFF

Four danger signs stand out most to financiers:

(I) A Product Orientation
This refers to a situation where there is a single cause of excessive entrepreneurial

optimism. It is infatuation with the company's product rather than with the market for it. Business plans that devote more space to describing the product than to detailing who will buy it and how it will be sold make investors suspect that the company is really just a playpen in which the founders can fiddle with their latest toys.

(II) Projections that Deviate Excessively from Industry Norms
Each industry has a range of accepted financial results. If a fledgling company's business plan makes projections that differ sharply from acceptable ranges in an industry, investors will worry that the entrepreneur has not done his or her home work or is being unduly optimistic.

(III) Unrealistic growth projections
Entrepreneurs tend to have aggregated expectations of long-term growth. Investors know that and expect it. But when the projections begin losing touch with reality, all kinds of alarms go off in investor's minds. Unless the speculator projections are explained and argued convincingly in the business plan, investors are likely to be skeptical. Only slightly less bothersome to investors are entrepreneurs who are excessively cautious in their growth projections.

(IV) Reliance on custom or applications work
When a company's basic product needs to be altered or especially designed for each customer, potential investors see high costs and low profits. Specially designed goods or services may be successful, but entrepreneurs forming companies of this type should expect resistance when they try to raise investor's funds.

The challenge for the entrepreneurs as they put together their business plans, then, is to convince investors that the new venture will exploit high-growth opportunities, while minimizing possible risks.

11.8 SUMMARY

Business plans are very flexible. They can be used for both large and small firms, for start -ups or for expansions, for private or public sector organizations, and can be a few pages or a substantial document running to 10,000 words or more, supported by appendices. Yet there is still no overall standard format by which anyone individual business plan can be measured. It is because they are so varied and that they are relatively new (in evolution and use) that it is unlikely that there will be any standard produced in the near future. So how do we measure whether a business plan is of good quality? We are left with that over-used phrase that a good business plan should "hang together."

We have indicated that what this really means is that the different sections should be interconnected, that it should be underpinned by careful research, by

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knowledge of the market opportunity, and that the assumptions and research should underpin the financial forecasts. The plan should be written with the particular audience in mind. A plan designed to raise financing from venture capitalists will need a different approach than one designed to obtain financing from a bank. Venture capitalists want to see a strong return on their investment; bankers are more concerned with the survival of the business so that it can repay its loans.

Review Questions

(1) As a consultant, prepare a business plan for your client who is thinking on how to float a good service company; choose a fitting format.

(2) What type of articulated hints will you give your client who seeks your advice on how to get a good business plan?

(3) Critically analyze what you think may turn investor on or off in any business plan?

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Chapter Twelve

FACTRORS INFLUENCING THE LOCATION OF SMALL BUSINESS

- Introduction
- Personal Factors
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BUSINESS SLOGANS

Good Organization is Growth Resulting from the Co-ordination Of All the Activities of a Business

A Diseased Plant Will Not Benefit from Better Soil.

12.1 INTRODUCTION

Some factors are paramount in influencing the location of business. A goo entrepreneur should take note of these major factors before locating his busines because any business that misses this basic foundation will suffer for it. Som factors are explained below:

12.2 PERSONAL FACTORS

In locating a business, each entrepreneur has his values, dos and don'ts in min before embarking on the business. With constant strikes, riot, and tensions nation wide, some entrepreneurs must have made up their minds on where to locate thei business and where not to locate them. Some of these personal factors influenc greatly the location of business by the entrepreneurs.

12.3 ECONOMIC FACTORS

Any serious entrepreneur must view economic factors very seriously becaus money is one of the mainstays of any business. When choosing a location fo business, the entrepreneur must look at certain factors like the purchasing powe of the target audience, and the competitive power of the target audience Depending on the type of business the entrepreneur should take advantage of the available economic factors- available before the final allocation.

12.4 SOCIO-CULTURAL FACTORS

These play a lot of role in locating business. The entrepreneur should take into consideration certain socio-cultural factors like the norms and tradition of the people, the infrastructural facilities such as pipe born water, good roads and constant electricity supply.

Equally to be noted is the religious traditions of the people: for example, there is no business wisdom building a beer factory in a Sharia State.

12.5 GEOGRAPHICAL FACTORS

Given the facts that different areas are blessed differently, the entrepreneur should exploit the comparative advantage of that geographical area when locating his business.

12.6 SPECIFIC FACTORS

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There are other specific factors apart from the above general factors that the location of business depending on the nature of the business. These specific

factors relate to the line of business, which the entrepreneur may find himself establishing, thus:

Service Business
The entrepreneur should first of all take decision on what type of service business he is into: it is the type of the service business that determines the location.

Good and assessable location is very germane for the location of business. for example; schools, clinic and restaurants are good or better to be in highly populated neighborhoods.

Retail Business
Similarly, the entrepreneur should take care of certain factors when locating his retail business. Hodgets (1982) identifies some retail stores, which do well when sited near certain other types of retail stores. Examples of such businesses are:

(i) Men's and women's apparels and variety shops are commonly located near departmental stores.

(ii) Restaurants, barbing shops, candy; tobacco and jewelry stores are often found near theatres.

(iii) Florists are usually grouped with shoe stores and women's clothing stores.

(iv) Drug stores may be found in any of the above groupings.

(v) Paint, home furnishing and furniture stores are generally in close proximity to each other.

Wholesale Business
It is always better for a wholesaler to site his business in an area where there is a heavy concentration of the retailers he supplies. At times he may equally have some other retailers located in suburban areas. In this case, he can select a site at the outskirts of the needs of both the city and suburban customers.

Manufacturing Business
The manufacturing business is best located in an area that has the best advantages of a minimal combination of cost of production and distribution. Jonah (1995) identifies some important specific factors that should influence overall location decision, which should include:

(i) Closeness to the market

(ii) Closeness to the suppliers

(iii) Availability and cost of Labour

(iv) Availability and cost of infrastructure; power supply, telephone service, good road network, closeness to railways where haulage of raw materials and finished products will be cheaper by rail, closeness to ports for easy shipping and receiving of goods if the firm is involved in exportation of goods etc.

(v) Enough land for the building of factory, parking facilities and for expansion when the need arises.

(vi) Accessibility to the site. There should be less traffic congestion to the factory site. This is because of the need of ease of movement of the factory trucks where available.

(vii) Federal, state and local government regulations and taxes.

(viii) Transportation service and cost.

12.7 SUMMARY

Just as many factors influence the location of industries, there are some factors that equally influence the location of businesses. Such factors are personal factors, economic factors, socio-cultural factors, geographical factors and some specific factors like service location, retail location, wholesale location, manufacturing location etc.

The entrepreneur should know that these factors enumerated above should not be taken for granted when a business is to be sited, as they are paramount in ensuring the success of the business.

Review Questions

(1) Discuss, some major factors that can influence the location of a business?

(2) Why do you think that the entrepreneur should note some specific factors before siting a service business?

References

Hodgets, M.R. (1982) *Effective Small Business Management*. Academic Press, Inc.

Jonah, S.S.G. (1995) *Entrepreneurship*, Jos. Jofegan Associates.

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24.5 SUMMARY

A product can be defined as something an organisation markets that will satisfy a personal want or fill a business or commercial need. It may be tangible, sought or not sought, inexpensive or expensive, essential or non-essential to human life, simple or complex, perishable or durable.

The product development process involves analysis of the market place, the buyer, the company's capabilities and the economic potential of new product ideas. Product development gives rise to product life cycle which normally starts from introduction stage, through growth maturity, stable maturity, decaying maturity to the petrifaction stage.

There are a lot of ways the entrepreneur can build the image of his products namely by good branding, good packaging, good designs, good colours, and good and enduring quality. A good and well-built product image will assure a good brand loyalty from the consumers.

REVIEW QUESTIONS

(1) What is a product? How would you develop a product and introduce it to market?

(2) What is branding and how will you ensure that your consumers maintain the brand loyalty of your product?

(3) Write short notes on the following

- Packaging
- Designs
- Colour
- Quality

BUSINESS SLOGANS

Competition Has to Be Overcome, Not Ignored

Profits are Made By Meeting Needs

"Economic Independence Doesn't Set Anyone Free, Or it Shouldn't. For Higher Up You Go, The More Responsibility Becomes Yours"

Bernard F. Gimbel

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24.1 INTRODUCTION

In this chapter, we shall introduce the entrepreneur to the modus operandi involved in developing new product, the product life cycle, how to manage the product life cycle, product branding, packaging and other image building features of a product. It is, therefore, imperative that the entrepreneur must know the importance of product, which is a very important element of the marketing mix. All other three elements (price, promotion and distribution) are about how to sell the product and get it to the consumer.

The entrepreneur has to be able to understand the needs of the consumers to be able to design and make products that can satisfy these needs. A product can be defined, therefore, as something an organisation markets that will satisfy a personal want or fill a business or commercial need. It may be tangible, sought or not bought, inexpensive or expensive, essential or non-essential to human life, simple or complex, perishable or durable. It may satisfy physical needs, such as clothing, or purely psychological desires, such as make-up.

The definition of a product can be expanded to include actual product and all the peripheral factors that contribute to a consumer's satisfaction. All these things are part of the "product" (Giles, 1980). A product may be in form of goods, services or ideas.

24.2 NEW PRODUCT DEVELOPMENT

Products are dynamic. Like people, they are born, grow, mature, and eventually decline. According to Sobczynski (1984:5) on new products, "to be a real success, a product should be both better and different - a lot better and a little different."

Coming up with a winning product requires both research and creativity. The *product development* process involves analysis of the market place, the buyer, the company's capabilities, and the economic potential of new product ideas. The process, illustrated in figure 24.1, may be both expensive and time-consuming. To accelerate the process, many companies create multidisciplinary teams so that manufacturing and marketing plans can be developed in tandem while the product is being designed.

Here we shall start the product development that gives rise to product life cycle (PLC). We shall categorize the development process into six, thus:

(1) Idea generation
(2) Idea screening
(3) Business analysis
(4) Development of prototype
(5) Product testing
(6) Commercialization

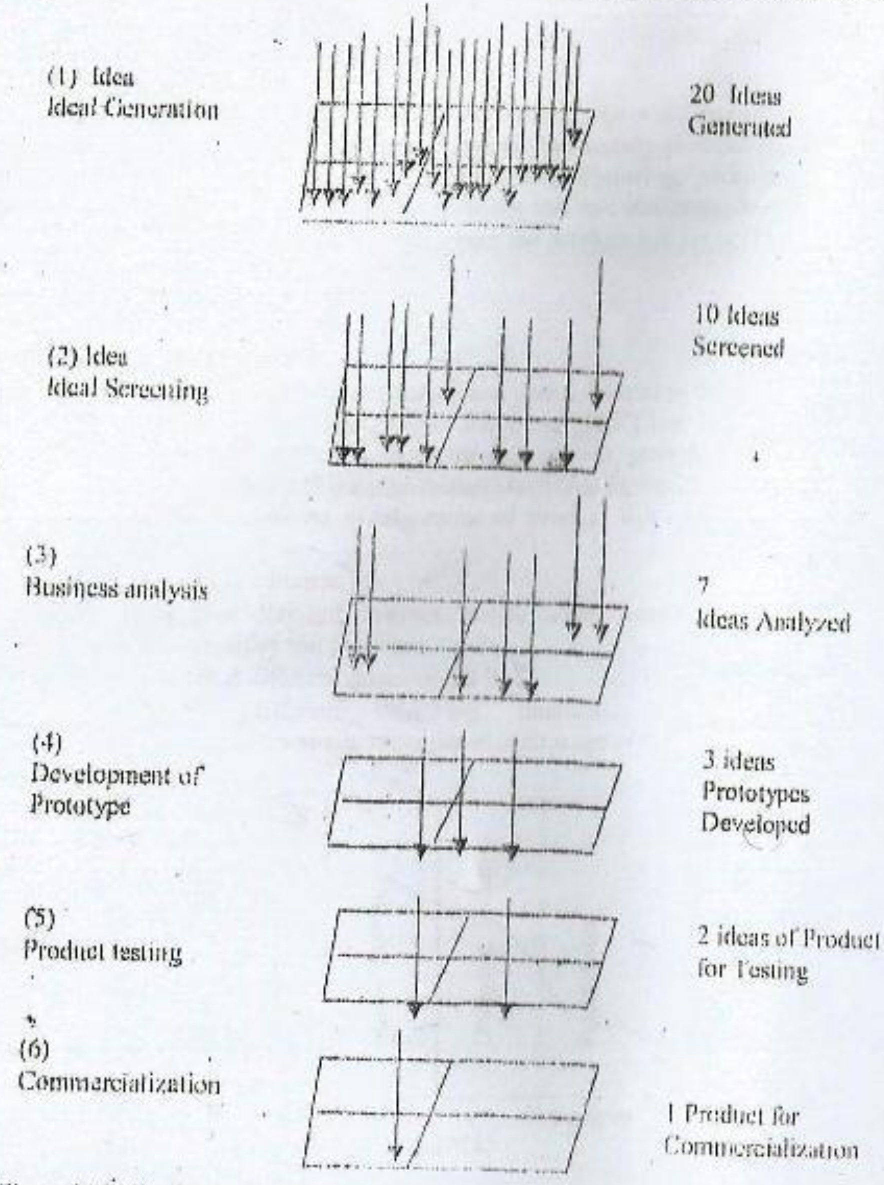

Figure 24.1: The Product Development Process
Source: Rachman, D.J., Mescon, M.H., Bovee, C.L. and Thill, J.V. (1990) *Business Today*, 6th ed. NY: MC Graw-Hill, P. 328.

Idea Generation

The first step is to come up with ideas that will satisfy unmet needs. The entrepreneur may get new product ideas from his employees, his customers, his consultants, his competitors, through publications, associated companies, market research, research and developments, etc. It is recommended here that the entrepreneur should always encourage his employees to assist him in generating new ideas. For every one product development to be achieved many ideas are generated as shown on figure 24.1.

Idea Screening

At this stage the various ideas generated are sieved to narrow them down to a few, good ideas. These ideas are properly screened with high level of objectivity. A few guidelines for the entrepreneur to follow in screening his various ideas are: *the high cost ideas, impracticable ideas, lack of technology or high cost of technology, cultural and social responsibility involved.*

Business Analysis

A product idea that survives the screening stage is subjected to a business analysis. At this point the question is: can the company make enough money on the product to justify the investment? To answer this question, companies forecast the probable sales of the product, assuming various pricing strategies. In addition, they estimate the costs associated with producing the product at various levels of production. Given these projections, the company calculates the potential cash flow and return on investment that will be achieved if the product is introduced.

Development of Prototype

The next step is generally to create and test a few samples, or *prototypes*, of the product, including the packaging. During this stage, the various elements of the marketing mix are put together. In addition, the company evaluates the feasibility of large-scale production and specifies the resources required to bring the product to market. The specimen is subjected to proper criticisms so as to come out with a better packaged product.

Product Testing / Test Marketing

During the product-testing stage, a small group of consumers actually use the product, often in comparison tests with existing brands. If the results are good, the next step is *test marketing*, introducing the product in selected or segmented areas of the country and monitoring consumer reactions. This is, expensive and time-consuming. Both the technical aspect (features, size, quality, colours, etc) and market acceptance, as it relates to taste, brand, packaging, and price, are tested. Areas of objections and criticisms are noted and fine tuned to meet the consumers' desired needs and wants.

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Commercialization

The final stage of development is commercialization- the large-scale production and distribution of those products that have survived the testing process. This phase requires the co-ordination of many activities manufacturing, packaging, distribution, pricing, and promotion. This is normally the last bus stop. At this stage, the product is now born, this is a point where the product life cycle (PLC) begins

24.3 PRODUCT LIFE CYCLE

A product passes through the development stages and gets delivered to the market after the commercialization stage. The product life cycle (PLC) just like every living thing starts from the introduction stage, through growth, growth maturity, stable maturity, decaying maturity to the petrification stage (see figure 24.2)

There are some assumptions or assertions of product life cycle (PLC), such as:

- Products always have a limited life
- Product sales pass through distinct stages each passing different challenges, opportunities and problems.
- Profits rise and fall at different stages of the PLC.
- Products require, different marketing, financial, manufacturing, purchasing and human resources strategies in each stage of their life cycle.

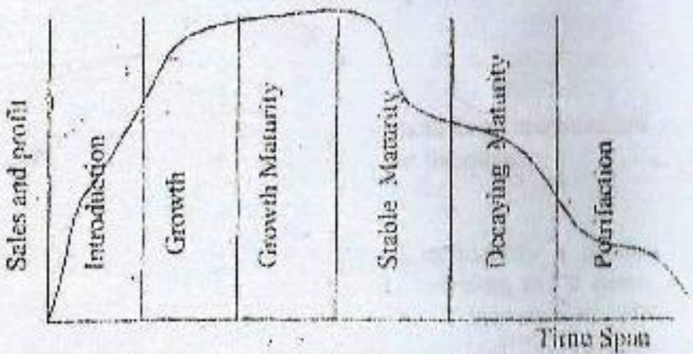

Figure 24.2: Stages in Product Life Cycle (PLC)

Introduction Stage

This is the beginning of the product. This is the stage where the entrepreneur must make a lot of commitment and expect little. A lot is normally ploughed in here because the objective of the marketer (entrepreneur) is to create awareness.

The entrepreneur (marketer) should equally have different strategies to overcome the problems like distribution- he should have wide network, if it is a consumer product; cost plus- he should add little profit, advertisement- he should build product awareness among the target audience and sales promotion- he should consolidate his strategies during the seasonal periods.

Growth

At the growth stage, there is a graduation from the introduction stage. The entrepreneur makes sales here with a reduced production cost. The competitors have started creeping in slowly. The marketing objective at this growth stage is to maximize profit as early as possible by making more money in order to stabilize. The marketing strategies at this stage are:

- Offer product extension by creating services
- Penetrating price through product delivery and provision of more services that will worth the price paid
- Advertising should build product awareness and interesting slogans
- Distribution should be intense and embracing
- Sales promotion should take advantage of heavy customer's demand.

Growth Maturity

At this stage the sales growth rate starts to decline.

Stable Maturity

At this stage, sales flatten, because of market saturation. Normally, the product is at the peak sales here. Competitors at this stage will be very many and there will be a lot of fake products and proliferations. The marketing objectives should be to maximize profit while defending the share of the market. How to maximize profit at this stage will be as follows:

- For the product-diversify brands and models.
- For price-lower the price because of the large quantity of product the price must match the price of your competitors.
- For distribution-build more intensive distribution strategy by creating more distribution networks.
- For advertising-stress brand differences and benefits.
- For sales promotion-encourage people to switch brand through your packaging, promotions, sponsorship of programmes and brand gifts.

Decaying Stage

The sales and products are declining at this stage. Customers here are the [illegible]. Competition here is equally declining because acceptability is now low because of

declining performance. Marketing objective at this stage is to reduce expenditure and *milk the brand* (i.e. exhaust the product). Strategies should be to modify the product, maintain low price, go selective in your distribution and close some distributive outlets that are not viable. Reduce your level of adverts in order to maintain your core loyal consumers before winding up. Reduce your sales promotion to minimum or phase it out entirely.

Petrifaction
At this stage the product line is closed and the brand manager is either sacked or redeployed to another section. The entrepreneur can use some marketing strategies to revive the product through a different entry method of packaging and branding.

24.4 IMAGE BUILDING FEATURES OF PRODUCT

Regardless of what type of product a company sells, it may want to create a brand identity by using a unique name or design that sets the product apart from those offered by competitors. Here are a lot of ways the entrepreneur can build the image of his products, namely:

- Branding
- Packaging
- Designs
- Colour
- Quality, etc.

These features help the consumers to immediately recognize one product from another. We shall now treat them one after the other.

24.4.1 Branding

A brand is the name or symbol used to identify a product. The American Marketing Association (1960:8) defines branding as "a name, term, symbol or design, or a combination of them which is intended to identify the goods or services of the seller or group of sellers and to differentiate them from those of competitors."

Brands are a significant factor in marketing, since they create a product's image. Some popular brands enjoy great support among customers. Good brand names are usually short, easy to pronounce, easy to remember, and easy to recognize. They should not include words that are in general use, such as radio, T.V. These are generic words and no good company can claim an exclusive [illegible] to their use. On the other hand, if a group of products become generally know[illegible] a brand name, that brand becomes a generic term and the manufacturer no lo[illegible] has exclusive right to its use. This is what happened to such former brand n[illegible] as nylon, linoleum and aspirin (Osuala, 1998:144).

Types of Brands
There are two kinds of brands namely manufacturers, or producers b[illegible] commonly referred to as "national brands" and middlemen brands, usually te[illegible] "private brands."

The following are examples of well-known brand names: Lipton tea, [illegible] tea, Magi cube, Nescafe coffee, Pepsi, Coke etc. Some manufacturers [illegible] middlemen use individual brands only. Others prefer family or blanket bran[illegible] and others use both.

Brand Strategies
Companies take various approaches to building brands. The traditional app[illegible] is to create a different identity for each product a company sells so tha[illegible] problem develops with that product, the other items in the line will not s[illegible] This approach has the added advantage of allowing a company to create dif[illegible] product images for various market segments. Take for example, Toyota Comp[illegible] with their varied products aimed at different types of buyers., The person w[illegible] likes a Toyota Carina and the person who wants a" Toyota Camry are looking [illegible] completely different things, even though both want a Toyota car.

Brand Loyalty
The entrepreneur has to think carefully about the benefits before spend[illegible] millions of naira on huge promotion campaign as the cost may drive up the pr[illegible] of the product. It is not a guarantee that consumers will buy a product just bec[illegible] they recognize the brand name. Before deciding to build a brand entrepr[illegible] need to evaluate whether the payoff will be worth the investment. Oft[illegible] answer depends on the type of product. As figure 24.3 illustrates, people are [illegible] to some types of branded products than others. Mundane product design[illegible] handle tedious chores are less likely to inspire loyalty than products ass[illegible] with an individual's personal image (Fisher, 1985:46).

Brand loyalty may be measured in degrees. The first level is *br[illegible] recognition*, which means that people are familiar with the product; they are [illegible] to buy it because they recognize it. The next level is *brand preference*. [illegible] level, people will habitually buy the product if it is available. However, the[illegible] be willing to experiment with alternatives if they are same incentive to d[illegible]

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ultimate in brand loyalty is *brand insistence*, the stage at which the buyer will accept no substitute. Those are the three levels of brand loyalty.

High-loyalty Products	Medium-loyalty Products	Low-loyalty Products
Cigarettes	Cold drinks	Crackers
Cold remedies	Furniture polish	Facial tissues
Laxatives	Hand lotion	Paper towels
35-mm film	Margarine	Plastic trash bags
Toothpaste	Shampoo	Scouring powder

Figure 24.3: Brand Loyalty and Product Type

Source: Rachman, OJ. Mescan, M H; Bavee, C.L. and Thill, (1990). *Business Today*, 6th ed. NY: McGraw Hill, P. 324.

One of the most intriguing examples of brand loyalty occurred in the mid 980s when the Coco-cola company attempted to discontinue traditional coke and replace it with a new formula. Although a $4 million taste test of 200,000 consumers had demonstrated that people preferred the new flavour, the company was deluged with protests when it made the switch. People were incensed that anyone would tamper with coke, which had become an American institution in its 99 years. Within months, the company admitted that it had goofed and brought back the old formula, calling it coca-cola classic and selling it alongside the new coke (Fisher, 1985:44-45). As it turned out, the incident worked to coke's advantage. With two-main products, it now commands almost twice the shelf space in supermarkets that it used to.

In a recent survey, it was discovered that some types of products inspire more brand loyalty than others because consumers are always unlikely or unwilling to switch brands of products that they associated with their self image even when they were offered alternative brand at half-price.

24.4.2 Packaging

Effective packaging not only protects products from damage or tampering But also promotes product's benefits through shape, composition and design. Stanton (1978) defines packaging as "the general group of activities in product planning which involve, designing and producing the container or wrapper for a product." Packages serve other purposes as well. They:

- Make products easier to display
- Attract customers' attention
- Provide convenience
- Act as a product differentiation

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- Offer protection against spoilage
- Reduce the temptation to steal small product and
- Increase product.

Labeling

Labeling is an integral part of packaging. Whether the label is a separate element attached to the package or a private part of the container, it serves to identify a brand. Sometimes the label also gives grading information about the product or information about ingredients, operating procedures, shelf, or risks. Fair packaging mandates that every label must carry the product name as well as the name and address of the manufacturer or distributor and must conspicuously show the net quantity.

24.4.3 Designs

Another way to build an image of a product is through good and distinctive designs. Good designs always help the consumers to differentiate one product from those of competitors. Many consumers remember or describe a product with a particular design when searching for it or sending somebody to buy it.

Good designs also help the producers to upgrade the product quality or durability. Above all, good designs can be used to improve product appearance and hereby improve the product's marketability. Many products dominate heir counterparts on the shelf usually because of the attractive and mature designs they have. Entrepreneurs are therefore advised to always pay attention to the designs of their products because there lays the difference.

24.4.4 Colour

Colour is very important as an image builder, because the attractiveness or dullness of a product's appearance is hinged on colour. In the women's world, colours play a vital role in their choice of a product, especially cloths. The colour combinations and separations on a particular product determine how fast or slow the product will sell. The entrepreneur should take colour combinations and separations serious either in fashion industry or in manufacturing industry as it helps to make a difference on the volume of sales and profitability.

24.4.5 Quality

Quality makes a difference as per a repeat buy a product can enjoy. Quality is one of the most important of the entire image building features of a product. A product that is bad will not attract repeat buys no matter how glamorous the packaging may be. On the other hand, a good quality product may attract a repeat purchase from those who go for quality not for packaging. Above all, a product that combines a good quality with a good packaging will always excel.

Read pg 356 is Summary on the front page.